INDIAN TARIFF BOARD

Cotton Textile Industry

Volume V

Miscellaneous Oral Evidence given before the Indian Tariff Board.

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DIRECTOR OF INDUSTRIES, BOMBAY.

Evidence of Mr. P. B. ADVANI, Mr. B. S. PATEL, Rao Bahadur BHIMBHAI NAIK and Rao Sahib SHIRAHATTI, recorded at Bombay on Thursday, the 25th August, 1932.

President.—Mr. Advani, you are the Director of Industries, Bombay?

Mr. Advani.—Yes.

President.—Are you giving evidence in your personal capacity or are you giving evidence on behalf of the Government of Bombay?

Mr. Advani.—I am giving evidence in my personal capacity.

President.—I propose to confine my questions to you mainly to the handloom industry. We have not been able so far to examine anybody orally who has anything like expert knowledge of this question, so I want to take advantage of your presence this morning to discuss some of the questions in connection with the handloom industry which are relevant to our main enquiry. In the first place, I want to express my very warm appreciation of the valuable note that the Government of Bombay has sent us regarding the handloom industry. This is one of the best statements we have received. The first point that I would raise is this: would it be possible for you to suggest to us the best means of arriving at an accurate estimate of the progress of handloom production in India. I will tell you what our difficulty is. As far as I know the only basis on which you can make an estimate of handloom production in the country is to take the amount of yarn available for consumption by handlooms in the country; that is to say, you take all the yarn produced in the country and the yarn imported into the country, you take the yarn exported from the country, you take the yarn used by the mills and then what is left over is the yarn used by handlooms.

Mr. Advani.—Yes.

President.—And from year to year you have got the figures calculated on that basis. If you based your calculations regarding variations in handloom production on figures calculated in that way, would the results be necessarily correct or is it necessary to make allowance for other factors of an important character?

Mr. Advani.—I do not think there are any other factors of any great importance. I think the results so obtained will be fairly accurate. This method was adopted, I believe, by the Industrial Commission of 1918 and has subsequently been adopted by everybody who makes these calculations. I know that since the Commission reported there have come into existence a number of knitting factories but I think the total quantity of yarn consumed by them is small. If necessary, the amount of this may also be taken into account. The actual consumption of these hosiery factories is recorded.

Mr. Boag.—Where is it recorded?

Mr. Advani.—I think the Director General of Commercial Intelligence records these figures.

President.—I met the other day the representative of an important association of hosiery manufacturers in India and I got from him on the spot figures relating to hosiery production in other provinces and that was almost as high as the aggregate figure given by the Director General of Commercial Intelligence.

Mr. Advani.—There are a number of factories which are quite small and which do not come under the Factories or Boilers Act. These are

probably not taken into account by the Director General of Commercial Intelligence. In my department we maintain a record of the small factories also.

President.—There is one factor which I consider very important in this connection and that is handspun yarn.

Mr. Advani.—So far as this Presidency is concerned I think in one of the schedules that I have supplied, I have tried to make a rough estimate of the total handspun yarn.

President.—You work it out to something less than 200,000 lbs.

Mr. Advani.—I think 160,000 lbs. of yarn.

President.—There is a sort of conventional figure which is adopted for the whole of India: that is about 50 million lbs.

Mr. Advani.—From my personal knowledge and that of my weaving assistants in the Presidency I can say that there is not much hand-spinning done in this Presidency. I think much of the handspun yarn now available in this Presidency is largely due to the efforts of the All-India Spinners' Association. In spite of these efforts I do not think Hand-spinning as a Cottege industry has taken root in this Presidency.

President.—The problem that we are faced with in this connection is this. All the figures that we have since 1929 seem to show a reduction in the total consumption of cloth in India. The figures with regard to imports are accurate; the figures with regard to mill production are accurate but if, as one is inclined to think or one would have to presume, under the circumstances there was a very considerable increase in hand-spun yarn in the past two or three years, then one would naturally infer that the production of handlooms is considerably greater than is represented by the yarn available for consumption calculated on the conventional basis. I want to get, as far as possible, an accurate idea of the extent to which reduction in the purchasing power has affected the consumption of cloth. In order to arrive at a reliable conclusion on that point we have got to find whether handloom production is simply limited to mill made or imported yarn.

Mr. Advani.—In the Bombay Presidency I think that is largely correct. I have no definite statistics to support what I am saying—I only rely on figures which I have obtained from reports of the All-India Spinners' Association. They maintain certain centres; in certain villages they open depôts; they distribute the cotton to a number of people; these men collect the yarn and give that yarn to people who weave and then sell. The statistics they keep are fairly reliable, and from my personal knowledge and that of my assistants of these centres, the weaving done by the hereditary weavers from handspun yarn is very limited.

President.—What about non-hereditary weavers?

Mr. Advani.—It is likely that there are some non-hereditary weavers but I do not think their output comes to much.

President.—There is another point in regard to handloom figures. If I went solely on the basis of the available yarn for handlooms then I am forced to the inference that whenever there is an increase in the production of textile mills there is an increase in the production of handlooms, and whenever there is a decline in the production of textile mills there is a reduction in handloom production. I can't see any reason why the ups and downs of textile mills should coincide with that of handlooms to that extent?

Mr. Advani.—Production naturally depends on consumption and consumption is largely dependent upon the economical condition of the people.

President.—I am speaking of the period before the general depression.

Mr. Advani.—I think even so there have always been cycles of trade depression.

President.—But why should it be during the strike period for example? The production of textile mills as a result of strikes in Bombay in 1928

went down considerably and the amount available from handlooms also went down in that year. I see no reason why that should happen.

Mr. Advani.—I have got here statistics or calculated figures in my department from 1896 to 1930-31. Here is a copy which has been brought up to date in my office. The strike period you are referring to is 1927-28?

President.—You better take 1928-29. Why should handloom production go down because there was a strike in Bombay?

Mr. Advani.—It may be that handlooms have to depend very largely on the production of yarn in the mills.

President.—Why should they not import yarn?

Mr. Advani.—I presume that during that period a greater quantity of imported yarn was used.

President.—The import figures remained fairly stationery: except in 1930-31 there was not a very striking increase or reduction in imported yarn. I do not see, for example, why big importers who deal in imported yarn, say in a province like Madras, should not adapt themselves to the requirements of handloom weavers.

Mr. Advani.—I think that is because nobody could foretell the duration of the strike. As you know the total imports of yarn into India as compared to the yarn consumption in handlooms and mills is very small. Handloom weavers I think consume barely 13 per cent. of their requirements of foreign yarn.

President.—Why do importers of piece-goods behave differently from importers of yarn? I find that during the strike period and immediately after there was an enormous increase in the Japanese figures of imported piece-goods. Take the June figures of imports of yarn into Bombay from Japan and compare that with June, 1931: I believe it is an increase of 7,000 (?) per cent.

Mr. Advani.—That is because of the enormous price reduction. The margin to the handloom weaver is very small, that is to say, if there is no yarn available in India and if suddenly yarn has to be imported, it has to be sold dearer and the margin of profit to the handloom weaver is so very small that it is even better for him to shut down than to pay a higher price for his yarn.

President.—Would you generally accept the proposition that the ups and downs of textile mills and of handlooms may be expected to follow more or less the same course.

Mr. Advani.—I would accept that.

Mr. Rahimtoola.—I understand the difficulty was that during the period the mills were on strike the handloom weavers could not get yarn?

Mr. Advani.—If there is general depression as there was last year then naturally the difficulties of the mills as well as that of the handloom weavers will be the same, because the total consumption is reduced.

Mr. Rahimtoola.—That is because the purchasing power has been reduced.

Mr. Advani.—Supposing there was a boom or anything like a boom and if there was a strike, then I could understand that yarn would be imported quickly provided there was a fair margin but supposing the two factors combined or there was some midway between them, because of the fact that the margin of profit left to the handloom weaver was very small I think he would not be willing to pay a higher price for his yarn.

Mr. Rahimtoola.—My information is that people prefer imported yarn to Indian yarn, because the quality of Indian yarn available in the market is not suitable for certain kind of goods.

Mr. Advani.—That is not supported by the fact that less than 13 per cent. of the total consumption of yarn by the handloom weavers is that of imported yarn. I have got actual figures worked out.

President.—I go to a somewhat different point. You don't like to be identified with this note of handloom industry sent to us by the Government of Bombay.

Mr. Advani.—I think the Bombay Government have forwarded the note of the Director of Industries.

President.—In your note on the handloom industry, you make the suggestion which I personally would accept that in order to judge correctly the progress made by the handloom industry, you have got to proceed not so much on the basis of the total production, but on the basis of the actual nett earning of the weaver.

Mr. Advani.—Yes.

President.—The difference between textile mills and handloom weavers in this matter is that if for any reason prices are not satisfactory, the textile mills can either curtail their production or close down; whereas the weaver cannot afford to do that, because he has got to go on producing and if prices are not satisfactory, he reacts to that by either starving or undergoing semi-starvation?

Mr. Advani.—That is right.

President.—That is the position?

Mr. Advani.—Yes.

President.—Therefore the real test of the progress made by the handloom weaving industry is the progress in the matter of wages. That is your contention?

Mr. Advani.—Yes.

President.—That brings me to the question of the competition that exists between mills and handlooms. That is one of the most important issues we have to consider. I take it from your note the general position is this: as far as inferior counts are concerned, say 20s and below, the handloom weaver is in a fairly strong position.

Mr. Advani.—That is so.

President.—The handloom weaver is also in a fairly strong position as far as superior counts are concerned say above 50s or 60s. There he is in a strong position for an entirely different reason, because what happens there is not that economically he is in a position of advantage, but because of these superior artistic designs for which handlooms are specially fitted, they are not woven except on these finer classes of cloth.

Mr. Advani.—That is true.

President.—Therefore to the extent that these special artistic designs give the handloom weaver an advantage over the mill, to that extent he has an advantage in respect of that class of cloth.

Mr. Advani.—I would say that the mills are not capable of producing that variety of design and there is not enough repetition to justify a mill undertaking such a production.

President.—The whole question is standardised production. You can't have standardised production.

Mr. Advani.—No. For instance where gold thread has to be introduced, the automatic loom is not designed to do that class of work. Therefore the weaver gets an automatic protection from the mill competition. The mills cannot touch that line of goods.

President.—I come to these inferior counts below 20s. That argument does not apply there. There I take it that the handloom weaver is able more or less to hold his own, because in these inferior counts, the margin of cost above the raw material is so small that the economies of large scale production are limited. Therefore the handloom weaver is able to hold his own against the mills for the inferior counts for the same reason for which the Bombay mill is able to hold its own against Japan in inferior counts.

Mr. Advani.—That is one of the important reasons. The other is that there is a restricted market. The handloom weaver in coarse counts makes goods which are readily saleable round about.

President.—That is really a question of proximity to the market. That is a particular kind of test.

Mr. Advani.—I would say proximity *plus* the restricted demand to some extent as in the case of superior counts. The total quantity required of a particular type of cloth is so small that it doesn't pay the mill to make same ready for the supply of that market.

Mr. Boag.—That is to say in the case of coarse counts?

Mr. Advani.—Yes to a certain extent.

President.—Not to the same extent, but to a certain extent it does operate?

Mr. Advani.—Yes.

President.—You have appeared before the Tariff Board in previous enquiries and as Director of Industries you know that one of the questions that we are often faced in this enquiry is how far it is possible for us to take the view that in an industry into which we are enquiring, the cottage section of the industry may be said to have an assured future on economic grounds.

Mr. Advani.—I would say that the handloom industry has an assured future in this country. I would not compare the conditions in this country with the conditions in a European country. According to economic theories that one learnt in the College, one would say that the handmade article has not the ghost of a chance to compete with similar articles made on automatic machinery in mills. I would say that that doesn't hold in India so far as the handloom industry is concerned. I think it is bound to go on as long as I can foresee.

President.—That is what I am inclined to think too. I have been looking into the figures of the total amount of cloth produced in this country both by textile mills and by handlooms woven from counts of yarn below 20s, that is to say cloth worn by the poorer people in this country. If you take the total amount of production in this country both by machine and by hand, my own idea is that not less than 60 per cent. of that is produced by handlooms. That is an extraordinary position.

Mr. Advani.—Yes. I would not say that 60 per cent. is produced by handlooms.

President.—I will tell you how I did the calculation. We have get a table supplied by the Bombay Millowners' Association in connection with Mr. Hardy's enquiry 2 or 3 years ago which gives you the average for each year, the amount of yarn of each count which was made for use in their own mills.

Mr. Advani.—I am sorry to interrupt you. You are referring to the lower counts.

President.—I mean 20s and below.

Mr. Advani.—I accept the proportion. I was thinking for the moment of the whole consumption.

President.—No. I am speaking of the cloth worn by the poorer section of the population.

Mr. Advani.—I accept your proportion.

President.—And that more than 60 per cent. is produced by the handloom industry.

Mr. Advani.—That is correct.

President.—It is from that point of view we want to look at this problem. It looks to me that if any burden is going to be placed upon the handloom, it is a burden which is going to affect the cloth consumed by those classes of people in this country who are least able to bear the burden.

Mr. Advani.—Yes.

President.—That is really the importance of the handloom industry, apart from the fact of course that the handloom industry itself employs more than 2 million people.

Mr. Advani.—It employs a very large number of people.

President.—From the point of view of national importance the handloom industry is a much bigger proposition than the textile mill.

Mr. Advani.—Yes if you take the number of people employed.

President.—That brings me to the question about which various people interested in handlooms in this country have addressed us and that is the question of the specific duty on yarn. I am frankly puzzled as to the line I should take with regard to the specific duty on yarn. I put the case from the point of view of the handloom to the representatives of the Bombay Millowners' Association when they appeared before us last week and they did not accept the position as I put it to them. I want to repeat the case for the abolition of the duty as I see it. The first point is this: on yarn of 20s and below Indian mills, I take it, have very considerable advantage over imported yarn because in regard to these coarser counts of yarn, the margin above the material cost is so small that standardised production in countries like Japan will not be of very great advantage. Therefore the mills here who have not adopted large scale production of the kind that Japan has, would be able to hold more or less their own as a general proposition.

Mr. Advani.—Yes.

President.—That is confirmed by the fact that even before the introduction of specific duty on yarn, if you take 1926-27 the imports of yarn below 20s did not show any variation.

Mr. Advani.—That is so.

President.—Apparently the specific duty has made no difference to the quantity of yarn below 20s which was imported into the country.

Mr. Advani.—That is correct.

President.—Therefore the logical inference is that there is a certain amount of inherent advantage which Indian Textile Mills possess in respect of these coarser counts of yarn. Therefore the case for a protective duty on that class of yarn is fairly weak. That is the first point. Coming to the medium counts which are really the main cause of difficulty. By medium counts I mean roughly from 20s to 35s or 40s. Above 40s I call superior counts. If your analysis of the handloom position is correct, the handloom weaver finds it most difficult to compete with the textile mills in respect of cloth woven from medium counts.

Mr. Advani.—That is so.

President.—If it is already very difficult as the result of inherent circumstances for the handloom industry to compete with textile mills in respect of the medium counts, then any specific duty on yarn of that kind is going to make the position still more difficult.

Mr. Advani.—That is so, but the abolition of the duty by itself would not mitigate the difficulties of the handweaver.

President.—I am coming to the mitigation part later on. The position of the handloom industry would be made very much more difficult.

Mr. Advani.—It would be made more difficult.

President.—The sole market for yarn produced of medium counts by the textile mills is for the handloom industry. Therefore if a duty is placed on the handloom weaver and if the handloom weaver is made to suffer, the textile mills would kill its own market.

Mr. Advani.—The position now is that in spite of the increase in price the total imported yarn used by the handloom weaver, as I said, is relatively small and I feel that if the duty were removed and to that

extent the price of yarn came down, I am not quite so sure yet whether the handloom weaver would be able in every case to increase his production and income.

President.—I am coming to that question later on. I want to look at it from the economic position of the handloom weaver later. For the moment what I am suggesting is either the textile mills want this duty, because it helps them to realise a better price or they don't want the duty. If it gives them a better price, somebody has got to pay them that price. I take it the handloom weaver pays that price?

Mr. Advani.—Yes.

President.—If he cannot afford to pay the price, he goes out of the market, and the textile mills have no market for medium counts.

Mr. Advani.—The handloom weaver because of the fact that he has got no economic stamina either starves or semi-starves as that is his hereditary profession. In India it is extremely difficult for weavers to adopt any other profession. Rather than leave that profession they prefer semi-starvation and they just go on weaving. My view is that in the last several years the position of the handloom weaver is worsened so far as wages are concerned. With all that I don't think the total number of handlooms has decreased or the total number of weavers has decreased.

President.—For the moment I am on this point. I am not speaking of his production as a whole, but if you made it more difficult for him to weave medium counts, he goes on to other counts.

Mr. Advani.—He is likely and he does.

President.—Therefore the textile mills lose the market for the medium counts.

Mr. Advani.—Yes.

President.—If on coarser counts the textile mills can hold its own and do not need protection and, if on medium counts protection has the result of killing the very market for the yarn, then I take it that from the point of view of the textile mills there is little case for the specific duty either on coarse counts or on medium counts.

Mr. Advani.—I think stated like that it is correct, but I think when you come to other factors, the conclusion may have to be modified.

President.—A point that has given me a good deal of trouble is this: when the case for a specific duty on yarn was argued in the Assembly on behalf of Government, Sir George Rainy who was then the Commerce Member used as one of his arguments that the specific duty would have no effect at all on the prices of coarser yarn below 20s, because he said there was a lot of internal competition. I have been examining the figures and I think the Millowners' Association definitely accepted that they have been able to get better prices in comparison with the imported yarn, since the specific duty was imposed.

Mr. Advani.—I accept that position.

President.—Generally the position is this: the excise duty was in force till about the end of 1925. The excise duty gave a considerable amount of assistance to the handloom as against the textile mills.

Mr. Advani.—Yes.

President.—That was abolished in 1925.

Mr. Advani.—Yes.

President.—On top of that within a year you get this fresh handicap placed upon the handloom industry. Therefore while during the past 5 or 6 years progressive assistance has been given to the mill industry, from the point of view of the handloom industry the progressive assistance has deteriorated.

Mr. Advani.—That is correct except to the extent that the various provincial Departments of Industries have been able to organise the handloom weavers in improving their technique.

President.—I am talking from the point of view of assistance given by the Central Government. The position has steadily deteriorated.

Mr. Advani.—Yes.

President.—There is nothing to be said for it. The next question is with regard to the specific duty. The specific duty applies to hosiery yarn?

Mr. Advani.—Yes.

President.—There is a very considerable hosiery industry in this country?

Mr. Advani.—Yes.

President.—Taking the number of people employed by the hosiery industry if we are able to give sufficient assistance to the hosiery industry, taking the amount of hosiery now produced and the amount of hosiery now imported, the total consumption of hosiery goods in this country amount to at least 10 million lbs. of yarn.

Mr. Advani.—I am unable to say that off-hand. I expect it is very much.

President.—It is fairly large. I have calculated. It is to the advantage of the textile mills to develop this market.

Mr. Advani.—Yes. We have been going into this question of suitable yarn for hosiery trade being produced by the local mills and we have forwarded samples of yarn which are specially required by the hosiery trade so that, that yarn may be brought to the notice of the members of the Association and they may produce suitable yarn for the trade.

President.—Do you think it would be necessary for them to instal a special equipment for the hosiery yarn?

Mr. Advani.—I don't think so. It is just a matter of twist. I rather think that they would be able to adjust that on their existing machine.

President.—That is what I gather too. I don't think it would be necessary to have any elaborate machinery. Supposing we are able to give assistance to the hosiery industry and there is a growing market in this country for hosiery yarn, it would provide the textile mills with a fresh outlet for their surplus of yarn?

Mr. Advani.—Yes, it would.

President.—I don't like you to commit yourself to any definite opinion. I think my conclusion is correct.

Mr. Advani.—I accept the position that the mills will find a fresh outlet for their yarn if they produce the yarn required for the hosiery industry.

President.—Have I generally convinced you by the argument about the removal of the specific duty or are you still sceptical about it?

Mr. Advani.—If you say that the removal of the duty would definitely help the handloom weaver to any appreciable extent, I would not accept that.

President.—I take it that your point of view, as stated in your note is that the fact that the handloom weavers are not well organised and are now very largely in the hands of Sowcars would make it difficult for them to make the best use of any remission of duty. What I mean is, supposing you are a handloom weaver and a member of a well organised Weavers' Association and you get a reduction in the duty on yarn, you are able to have a good selling organisation, you are able to put yourself in direct contact with a fairly big market and you get the prices ruling in the market. The remission of duty therefore is to you a reduction in cost and in your selling price.

Mr. Advani.—Yes.

President.—On the other hand if you are not in that position but you are working for a Sowcar, then the advantage which results from this remission will go mainly to the person who employs you and only a small part of it reaches you?

Mr. Advani.—That is so. What I would make out is this. There can be no doubt whatsoever that the remission of duty would assist the handloom industry generally.

President.—It would?

Mr. Advani.—Yes, by the mere fact that the yarn would be cheaper. There can be no doubt about that as a proposition, but the advantage which will be derived would be limited because the total reduction in the price of cloth which would be possible by the remission of the duty will be so small, especially in the medium counts, that this will not enable the handloom industry to compete with the mill industry.

President.—Leave out the medium counts. The main thing is the coarse counts.

Mr. Advani.—In the coarse counts it will help the handloom industry and if the weavers' position were strong, his wages are likely to appreciate but not to anything like the extent that they have deteriorated during the past three or four years.

President.—From the figures that you give in your note, I am inclined to think that it might make at least a difference of about an anna a day.

Mr. Advani.—But then you must remember that the wages, since 1927, have dropped to the extent of about 60 per cent. Where they were a rupee, they have gone down to 6 annas. Now if the remission of the duty were to make a difference of an anna a day—probably it might be even a little more—they would become 7 annas as compared with 16 annas some years before.

President.—Suppose a man has a family of three children and a wife and makes to-day 5 to 6 annas a day and suppose the remission of the duty enables him to make 7 or 8 annas, it would make a difference?

Mr. Advani.—It would make a big difference.

President.—I admit that it is not likely to make his earnings as big as he used to get before.

Mr. Advani.—There would be about twenty per cent. increase in his present reduced earnings. There is no doubt about that.

President.—If that is so, we cannot possibly ignore this aspect of the question?

Mr. Advani.—No.

President.—There is one point in connection with this. You have laid a great deal of stress on the selling organisation and the employment of handloom weavers by Sowcars. Have you any suggestions to make with regard to the alleviation of the handloom weavers' position from the point of view of organisation and dependence on middlemen?

Mr. Advani.—Yes, I think that far too little attention is being paid now to co-operation amongst weavers and far too little attention is paid in the matter of teaching them improved methods and improved technique; and practically no attention is paid so far as the selling organisation is concerned. The same remarks apply to financing as an alternative proposition to the present financing by Sowcars.

President.—Why so little attention is paid?

Mr. Advani.—Lack of money. I think that it is appreciated that more work is necessary. But the provincial Governments have just now got no money and I think that if any advantage is to be given to the textile industry—and as you said yourself, and I agreed, that all the benefits so far as the Central Government is concerned, have been given to the organised textile industry as against the hand weaving industry—means must be found to transfer some of the benefits to the handloom industry.

President.—Have you any suggestions?

Mr. Advani.—I have two suggestions to offer. One of these would be that there might be a cess. I know that it is a difficult question but I would still like to state it.

President.—You would put on a cess like the excise duty?

Mr. Advani.—I would say this. If a very small cess were levied of say one pie per pound of yarn used by mills, it would enable the raising of something like Rs. 28 lakhs per annum.

President.—For the whole of India?

Mr. Advani.—Yes.

President.—That won't go a long way?

Mr. Advani.—If you like you can multiply it by three.

President.—Let us make it 3 pies.

Mr. Advani.—If you take it as 3 pies per lb. of yarn, it would yield a revenue of Rs. 80 lakhs.

President.—A province like yours out of that might get Rs. 7 to 8 lakhs.

Mr. Advani.—It would.

President.—What would you do with that?

Mr. Advani.—I would spend that money in giving extensive help to the hand weaver by means of organisation of co-operative societies, not only credit but also production and sales. I would spend far more money than we are doing on the technical improvement. For instance, we have in this Presidency about 100,000 Handlooms. We have not been successful in introducing more than about 17,000 improved type of handlooms. We have taken something like 15 years to achieve that because the staff is restricted. We must enable these people to adopt the improved type of loom; we must teach them improved patterns, improved designs. In most weaving centres they have no facilities whatsoever for learning any improvements in their technique, whether in the matter of actual appliances or in the matter of design work or in the matter of colour schemes. I would also spend far more money in having dyeing and printing demonstrations, so that all the artistic work or a good deal of it which is now beyond their reach, they can supply. They have lost some market because of the change in taste. We could recapture that market by the introduction of improved design work and improved colour schemes.

President.—So that practically the whole of this contribution that might come for example to your province from the Central Cess Fund would be utilised for the development of the technical side of the handloom industry?

Mr. Advani.—Not merely technical but also commercial as well as financing. I would finance to a much larger extent these societies, co-operative or other. I would also use the money to finance individual weavers wherever I can and wherever it is possible.

President.—Personally from such knowledge as I have of this question, if it is going to be a question of releasing the weaver from the domination of the middlemen, it seems to me to be very largely a question of the extent to which you can finance the weaver, because that is the essence of the whole question, am I right? If you get your yarn from your Sowcar, you are dependent for the sale of your cloth also on your Sowcar, that is to say you get your raw material from him and you sell your finished goods to him. It is in that way the loan is received and discharged. Therefore for the whole process, you seem to be in a very close manner dependent upon the middlemen.

Mr. Advani.—That is so, and that is why I said that I would spend a good deal of that money organising the weavers to make them, if not entirely, at least to a large extent, independent of the present Sowcar system.

President.—If you want your individual handloom weaver to make the best of any improvement in general conditions or in conditions of taxation, if you want him to make the fullest use of that, you must secure for him a position of increasing freedom from the domination of the middlemen?

Mr. Advani.—Yes, and we must provide facilities for increasing his technical knowledge and skill. That is equally important in my opinion. You might finance him to as large an extent as you can and may, but if he is not able to cater for the changed tastes of the people, he will still go down. That, I think, is a very big factor. I have in some way experimented on that in one or two places, where they used to make susis only. Susi is a striped trouser cloth. The taste of the people had entirely changed there, but these people would still go on making susis. I sent one of my Weaving Assistants there and he taught them other designs of cloth which were in demand locally and that helped them very considerably. These people had been doing susis for decades and it was very difficult for us to persuade them to change over.

President.—Which is more important—to help them to adapt themselves to variations in tastes or to help them to increase their output, say, by a fly shuttle?

Mr. Advani.—You might help to increase their production but you would be faced by the same problem of lack of sales as there has been a change of taste. If you enable them to increase their production, they will be worse than ever. To my mind, the two are equally important. In my Department we spend a large sum of money from our budget on this industry. Our weaving masters and demonstrators do not go to a village, merely with the idea of changing the loom, that is to say, merely with the idea of introducing improved appliances. I feel that that means increased production of anything from 40 to 60 or 70 per cent. in very coarse counts, but that does not enable the weaver to get rid of the production. All this is not much use unless we also teach him to produce different patterns. Let me give you a concrete illustration. In one of the villages with which my Senior Weaving Assistant was concerned, people were producing saris, cotton saris, which were coming in direct competition with saris produced in mills. It is not much use teaching these people to produce a still larger quantity than what they are producing. So he taught them the use of different borders with artificial silk yarn or silk yarn. That immediately changed the competition. The mills were not able to do that. These people were able to do that and the position was altered. If you wish them to increase their production after acquiring the ability to produce different patterns, it would be worth while; otherwise it would be making their position much worse than what it was before.

President.—I accept your position with regard to technical and commercial organisation. With regard to the question of finance I have often been told that one of the great difficulties with regard to the organisation of co-operative societies amongst weavers—particularly credit societies—is that you cannot get your society to render any substantial service to the weaver unless the society is in a position to relieve him from past indebtedness.

Mr. Advani.—That is perfectly correct. From my own knowledge, I can say that not enough finance is possible at the present time. That is more or less the same proposition which you have put forward. I have talked with weavers in the course of my tours and I have found that the total amount of advance which they are able to get from a society is so small that it is not only not likely to help them as regards their old debts but even as regards their current needs.

President.—That is precisely what I mean. The co-operative societies advance a loan to a weaver with which he buys the yarn; they give a loan with which he is able to keep his finished goods till a fairly good market is available. If he does that for a particular transaction, then it

means that the Sowcar on whom he has been dependent till then would make his position very difficult in the village?

Mr. Advani.—Yes.

President.—If for ordinary things he has to go the Sowcar, he cannot afford to displease the Sowcar and therefore the society gets exceedingly unpopular with the weaver. That is the position?

Mr. Advani.—Yes.

President.—Unless your co-operative society has sufficient finance not merely to finance individual transactions of this kind but to help the weaver in respect of the whole financial mechanism of his life, your society is not likely to do very much?

Mr. Advani.—Helping through co-operative societies need not be the only way of assisting. We may consider other methods of helping the rural workers and specially weavers. I have no doubt that you know that in England there is an Association—I forget the correct name; I think it is called the County Industries Limited—founded somewhat on philanthropic lines with about £5,000 as capital and with a sales room in London. They arrange to sell for rural producers their products in a big city like London and supply raw materials at low rates to the rural workers. If I had money, I would form a District Association on similar lines in every important district and help the weavers through the Association in the matter of purchase of raw materials at cheap rates and selling their finished products, etc. This method was recommended by me to the Bombay Provincial Banking Committee and was accepted by them. This method will be in addition to helping the weavers through co-operative societies.

President.—Apart from technical instruction and guidance in commercial organisations, anything else you do for the weaver is coupled with the question of finance?

Mr. Advani.—That is so. That finance should be found in my view by the imposition of a cess. The actual method of distributing or using that finance could be worked out.

President.—Supposing your technical instruction and commercial organisation cost about Rs. 2 to 3 lakhs, you will be left only with about Rs. 4 lakhs?

Mr. Advani.—Yes.

President.—Is there very much in the way of financing you can do with that Rs. 4 lakhs?

Mr. Advani.—I would build up that. In a few years' time we could build up a fund.

President.—You mean by successive payments from the Government of India?

Mr. Advani.—Yes. These contributions should not be allowed to lapse. They would go to build up a fund which you might call Hand Weaving Development Fund. There is no reason why the annual grants should be allowed to lapse.

President.—To whom should the Central Government make this contribution? Whether they made it to the Government of Bombay or to the Director of Industries, the amount would lapse to the general budget.

Mr. Advani.—There is no reason why they should not stipulate that these contributions should not lapse. There might be constituted Provincial Handloom Weaving Boards to which should be given these grants.

President.—You would have to have a special organisation registered under the Charitable Endowments Act?

Mr. Advani.—There is no reason why that should not be done. There might be a Board in each Presidency. The Director of Industries of the Province might be the Chairman. If you like, this may be a statutory body registered under the Charitable Endowments Act or any other Act

that might be considered suitable and they may spend the money only for the purpose of developing Hand Weaving Industry.

President.—What would happen to the mills in the Indian States?

Mr. Advani.—I am not quite clear on this particular point of cess on the mills in the States. I believe they must have been paying the excise duty before it was abolished.

President.—What I gathered is that in some of the States the Government agreed informally to the levy of the same excise duty as was levied in British India, but it was simply a matter of informal agreement.

Mr. Advani.—For the time being the total number of mills which are situated in British India would bring forth sufficiently large sums of money.

President.—My point is that you are placing a charge on the mills in British India which would place them at a disadvantage as compared to the mills in the States.

Mr. Advani.—I think that the cess I suggest is not so very large as to impose a handicap. I suggest that power should be taken to impose up to 3 pies a lb.

President.—Supposing 3 pies per pound was the cess, if you took an average sized mill in Bombay which produced about 30 million pounds a year, that would be about 30 lakhs?

Mr. Advani.—I would say that he is to pay cess only on that part of the yarn which is used by the mill itself.

President.—I am speaking of 30 million pounds of cloth. At 3 pies that would amount to $7\frac{1}{2}$ lakhs annas; that would mean about 40 to 50,000 rupees a year. If you ask a Bombay mill to contribute to the State Rs. 50,000 a year and the mill in, say, Indore or Baroda and the various States in the Bombay Presidency pay nothing . . . .

Mr. Advani.—Surely it should be possible to take steps to come to an arrangement with the various States that the cess should be applied right round.

President.—You would apply it to the Indian States too?

Mr. Advani.—Yes. I think the position of the handloom industry is such that some means must be found to help the handloom industry not necessarily because it would become extinct if not helped but because it affects two millions of handloom weavers who have been hereditary weavers and they have no possibility of going to any other profession and they are semi-starved, and it is a problem which I think has got to be tackled.

President.—I admit that. There is one other point I want to put to you. A suggestion has been made to us that some kind of arrangement should be made for the distribution of the production of different grades and kinds of cloth between mills and the handloom industry, that is to say, arrangements under which mills would be required to confine their production to certain classes of cloth and the handloom industry to some other kinds or grades of cloth.

Mr. Advani.—That was the second suggestion that I was going to make. But I must again lay stress on making money available for helping the weaver. If a cess is impossible then Government might make a subvention to the industry from any revenue which may arise from protection . . . .

President.—You will get nothing at all. The genesis of protective duties would mean that the Government of India instead of having a surplus would have to go to the general taxpayer to make up the loss in revenue.

Mr. Advani.—I think it is imperative that some source of revenue must be found to assist the handloom industry; because, as you have yourself said, it supplies something like 60 per cent. of the cloth of the poorer section of the people and it employs something like 2 million men.

President.—Supposing we left out of count the cess question and came to this question of mutual adjustment of production between the mills

and handlooms, the difficulty that occurs to me is entirely of a practical kind. In the first place there are very nearly 350 mills in India: how are you going to ensure that each of these 350 mills would confine its production to particular grades of cloth? On the other hand you have got about 2 millions of handloom weavers: how are you going to ensure that they are going to confine their production to particular grades and kinds of cloth?

Mr. Advani.—I don't think the mills want protection from handlooms; they are protected enough; they have finance behind them; they have automatic machinery. It is the handloom weaver who requires protection. It is a case between a dwarf and a giant. If you were to limit the handloom weaver in his production of the kind of cloth on which he largely subsists—that is the kind of saris worn by the poorer classes—his position will be serious. There has been keen competition in this type of cloth between the handloom weaver and the mills and the handloom weaver has been ousted out because where the handloom weaver was selling his sari for, say, Rs. 3 the mill has come in with its mass production and is selling at a rupee below that price.

President.—The obligations contained in the arrangement will be confined practically to the mills: the mills will be confined to the production of cloth not below a particular count?

Mr. Advani.—It is not the question of count only. I think the largest production so far as handlooms in this Presidency are concerned is that of saris. There are definite types of staple cloths which are used by the women-folk as well as men and I think you can define those cloths and say that these cloths of such and such patterns shall not be made by the mills.

President.—You would define it not in terms of counts but in terms of particular kinds of cloth?

Mr. Advani.—I would make use of both.

President.—That raises another question with which we have been faced in discussing other aspects of this question. Supposing the various mills refuse to accept this agreement—I am not speaking of Indian States for the time being—how exactly are you going to enforce this arrangement upon them? Would it be by a penal provision in the Protection Act? We have been asked to introduce a variety of penal provisions!

Mr. Advani.—I should think that the mill industry being an organised industry, if they gave an undertaking—I think they gave such undertaking as regards khadi production—if they gave that, that would be sufficient.

President.—I have not the slightest doubt that if organisations like the Millowners' Associations of Bombay and Ahmedabad give an undertaking, they will honour it, but there are so many mills outside the associations all over India and I cannot see any way of meeting that difficulty except by introducing a section into the Protection Act of the kind you find in the general Acts—fine or imprisonment or both.

Mr. Advani.—I appreciate it will be difficult to introduce penal clauses in the Protection Act, but if they are introduced a fine would probably meet the case.

Mr. Rahimtoola.—You mentioned when we met this morning that you have appeared before the Board in your personal capacity. I take it that as regards the memorandum that you have submitted Government are aware of the points that have been raised in it?

Mr. Advani.—Yes.

Mr. Rahimtoola.—In reply to the letter asking the Government of Bombay to send their representatives, they have sent four of you gentlemen—one is yourself and the other three are Mr. Patel, Deputy Director of Agriculture, Rao Bahadur Bhimbhai Naik and Mr. Shiva Nath.

Mr. Advani.—Yes.

Mr. Rahimtoola.—May I take it that the object of sending these three gentlemen is to emphasize the cultivators' point of view?

Mr. Advani.—Yes.

Mr. Rahimtoola.—If that is so, I would like to understand the position of the growers: Mr. Patel, you tell us exactly the kind of work which is being conducted by your department?

Mr. Patel.—The department is carrying on research work in cotton breeding and once we obtain a valuable type of cotton that has a better staple and is a better ginner we introduce it by organisation of seed distribution in the tract. That is as far as cotton is concerned. Then we have also the Cotton Transport Act working in certain tracts of the Bombay Presidency.

Mr. Rahimtoola.—This brings me to the question with regard to the constitution of the Central Cotton Committee. Are you in any way connected with that department?

Mr. Patel.—I am not.

Mr. Rahimtoola.—I understand that one of the objects of the Central Cotton Committee is to help the growers in every possible manner and another one is to give them better seeds and to see that they grow better type of cotton.

Mr. Patel.—The department does the work partly and we are subsidised by the Central Cotton Committee and the whole work is done through the department.

Mr. Rahimtoola.—That means that the Central Cotton Committee gives you a lump grant on a scheme.

Mr. Patel.—Yes, for a particular scheme that we put up. They go through the scheme and then sanction the grant and then we run the scheme through the department: that is to say, the Director of Agriculture is responsible and I am responsible to the Director.

Mr. Rahimtoola.—What percentage of your budget would amount to the grant by the Central Cotton Committee?

Mr. Patel.—I could not say that. Of course the total budget of the Department of Agriculture is about Rs. 15 lakhs and we might be getting something like Rs. 2 lakhs from the Central Cotton Committee.

Mr. Rahimtoola.—They give you only money on the schemes that you put forward and sanctioned by them: the other part of the budget is met by the Bombay Government itself?

Mr. Patel.—Yes.

Mr. Rahimtoola.—It is earmarked for the scheme?

Mr. Patel.—Yes. If the scheme is accepted then that money is allotted for three years or five years as the case may be. For example there was a scheme of research to control cotton bollworm and that went on nearly for eight years and all that money came from the Central Cotton Committee and the scheme was worked by the department. Only the reports were sent to the Central Cotton Committee for their discussion and approval.

President.—The Cotton Committee gets its advances partly from the cess?

Rao Bahadur Naik.—Wholly from cess.

President.—Don't they get grant from the Imperial Council of Agricultural Research?

Rao Bahadur Naik.—None at all. It entirely depends on the cess.

Mr. Rahimtoola.—How do you actually keep yourself in touch with the needs of the growers?

Mr. Patel.—I have charge of the division: I know the people and their difficulties as far as production and marketing is concerned. I know also their grievances and their problems, whether a certain type of cotton can

be improved. Knowing science as I do I have in my mind certain plans of improvement and I discuss that with the Director and put up a scheme.

Mr. Rahimtoola.—Do you in any way finance the growers if they are in difficulties?

Mr. Patel.—No.

Mr. Rahimtoola.—I suppose that part is left to the Co-operative Society?

Mr. Shiva Nath.—(Hands in a note.)

Mr. Patel.—Rao Bahadur Bhimbhai Naik is connected with the Co-operative Societies.

Rao Bahadur Naik.—There is some sort of financing in seed distribution.

Mr. Patel.—The Director places at our disposal a lump sum for purchasing seeds and we refund the whole sum at the end. The Cotton Committee does not provide this working capital: it is put at our disposal by the Director from his personal ledger account.

Mr. Rahimtoola.—I want to ask you about this import duty which is mentioned in this memorandum. Has the duty benefited the cotton cultivators?

Mr. Patel.—I think it has. I will give you a concrete case. At present it is about Rs. 25 per candy and had it not been for that I think the proce of cotton would have gone down further.

President.—I should like to know what the effect of this import duty on raw cotton is. Is the effect of the import duty in raising prices confined to the classes of cotton which are comparable to imported cotton or is the effect felt also in regard to other classes of cotton. I understand that there is a certain normal margin between the prices of various kinds of cotton.

Mr. Patel.—Yes.

President.—The effect of this duty is to raise the prices of those classes of Indian cotton which are in competition with American cotton and that in its turn must pull up to some extent prices of cotton.

President.—As a matter of actual experience, do you think that this import duty on raw cotton has had any effect upon the price of Indian short staple cotton? What is your actual experience?

Mr. Patel.—I have no means of ascertaining exactly. It is after all an observation and opinion. There was a difference of Rs. 75 per candy between Broach and Surat. This year it has gone down to Rs. 30.

President.—When you say the difference has gone down to Rs. 30, one must have gone up and the other gone down.

Mr. Patel.—The price of better cotton has gone down in spite of the duty. The point here is, if it was constant, there should be constant difference, but the constant difference doesn't arise.

President.—What exactly did the duty do there? I expect what the duty did there was to prevent a further fall.

Mr. Patel.—Yes, that is exactly what I feel.

Rao Bahadur Naik.—This is not a normal year. This year there has been a special dumping of American cotton of both higher and lower grade. On account of that we are not in a position to say whether the agriculturist has benefited by the duty or not. In spite of the half anna duty per lb. you will see that most of the mills in this country have imported American cotton, because the parity price of the latter is low, but that is not the case every year. Every 10 years you will find a year or two where the parity price varies to a great extent.

President.—Thrice.

Rao Bahadur Naik.—Then this year because the American price parity has gone down below the price of the Indian cotton which is equivalent to American middling, we the growers or anybody else cannot say to what extent the duty has benefited the growers.

President.—You say that the circumstances are so exceptional and the period since the duty was imposed is so short, it is impossible to draw any conclusion.

Mr. Naik.—In a normal year it is quite obvious that the growers would be benefited by this duty.

Mr. Rahimtoola.—This year I understand the effect is very bad, because it may discourage the cultivator not to grow cotton to the same extent as he has been growing in the past.

Mr. Naik.—The inference is quite possible. It does.

Mr. Rahimtoola.—You are definitely of opinion so far as the American cotton is concerned, that the staple cotton which they are importing at present, Middling American cotton as they call it, directly hits the cultivator.

Mr. Naik.—Yes the cultivator who has that quality of cotton. For the requirements of the mills of India including the handloom industry $\frac{7}{8}''$ to $1''$ is quite sufficient.

Mr. Rahimtoola.—In this memorandum I find a very great point made here, *viz.*, that the cultivators are the greatest patrons for the purchase of Indian mill made piece-goods, but they are much handicapped by the import of American cotton, because they have nothing left to them. I think there is a sort of retaliation move that you are thinking of for not buying the Indian made goods.

Mr. Patel.—It is duo to the very low prices of the commodities.

President.—They have not got sufficient purchasing power?

Mr. Patel.—Yes.

Mr. Rahimtoola.—It is the starving condition of the cultivator that is emphasised.

Mr. Naik.—Yes, they are not in a position to meet both ends.

Mr. Rahimtoola.—Mr. Advani, are you aware of the Cotton Braid industry in any way?

Mr. Advani.—It is not carried on to any large extent. Compared to the staple cloths produced by the handloom weavers, braid is produced in very small quantities.

Mr. Rahimtoola.—From the statistics at any rate I find that the Japanese imports are very much on the decline. The Japanese imports were very small. To that extent the Braid industry has taken root. Wherever we find handlooms working I have noticed that there is a demand from some people to be taught or to be given looms for producing braids. However I better leave it at that. I want to develop the argument which I have not been able to understand that you have told us that the handloom people chiefly depend upon the yarn made out of the mills.

Mr. Advani.—Yes.

Mr. Rahimtoola.—My information has been that the mill yarn which is supplied to the handloom weavers or what is in the market has got less number of twists than the yarn which the mills use for themselves.

Mr. Advani.—I am unable to make a statement.

Mr. Rahimtoola.—You have not investigated this question.

Mr. Advani.—My staff is in very intimate contact with handloom weavers who are scattered all over the Presidency. That sort of complaint has never come up to my notice.

Mr. Rahimtoola.—But one of the officials of your Government came and saw me unofficially owing to this handloom business and he gave me to understand that that was a fact. That was the reason why the Indian yarn was not sold in the market as against the imported yarn, because there were a less number of twists in the yarn which was sold in the market as against the yarn which the mills themselves used for their own cloth.

Mr. Advani.—I have no positive information to substantiate that point.

Mr. Rahimtoola.—Another question is the duty on yarn. I have found in one or two representations that have been made to the Tariff Board that some of the weavers prefer imported yarn to Indian yarn for one of these reasons.

Mr. Advani.—I think imported yarn is largely used of fine counts. I have made a statement in one of my schedules showing the extent to which imported yarn is used. The counts of which imported yarn is used are I think above 40s.

Mr. Rahimtoola.—You have not noticed that?

Mr. Advani.—No.

Mr. Rahimtoola.—Nor has your attention been pointedly drawn to that?

Mr. Advani.—No. It is not very difficult to check that by collecting representative samples of yarn.

Mr. Rahimtoola.—Having regard to the duty on yarn, it would be interesting to find that out.

Mr. Advani.—If the Board is interested in that, I don't think it would be very difficult to collect the information. I could ask my various Assistants in the Presidency to collect samples of yarn actually used.

President.—Could you send us a note by about 20th September?

Mr. Advani.—I think it would be possible.

Mr. Rahimtoola.—Are you aware that the mills in Ahmedabad have given an undertaking not to manufacture goods from counts of 18s and below?

Mr. Advani.—I was aware that an undertaking had been given that khadi or anything that resembles khadi would not be produced.

Mr. Rahimtoola.—You are not aware of a general proposition of this character apart from one quality like khadi.

Mr. Advani.—I would say that one does come across cloth made in mills below 18s which competes with the cloth produced by handloom weavers.

Mr. Rahimtoola.—The information we have received is quite contrary to the one which you are in possession. But suppose this was a general practice in the mills and if the mills gave an undertaking and according to you nearly 60 per cent. of the handloom production is below 20s, will that substantially help the handloom weavers?

Mr. Advani.—I think it would help.

Mr. Rahimtoola.—As regards paragraph 15, you have said that there are several directions in which the handloom industry stands in considerable need of State help. I want to understand two points out of that One is the State help. You mean the help from the Government of India.

Mr. Advani.—I mean various Governments. I think the help would probably be directly rendered by the various Provincial Governments, but as the local Governments have no money, my suggestion was that some money should be made available from the Central revenues whether by cess or otherwise and placed at the disposal of the Provincial Governments so that they might be able to help the handloom weaving industry.

Mr. Rahimtoola.—I would like to know in what direction at present having regard even to the limited means at your disposal you have been able to help the handloom weaver with regard to these 6 or 7 items?

Mr. Advani.—We have, so far as this Presidency is concerned, made attempts to help him in (*a*) Training of suitable men who may organise the handloom industry on factory basis. We have recently started in Poona a Central Handweaving Institute for training fairly educated men from all over the Presidency in a course of handloom weaving, dyeing and printing so that they may go back to the villages and organise the handloom weaving industry. I would amplify this by an illustration. Sometime back I had occasion to go to a small township and there I heard of a young man who had been trained in one of the weaving institutions.

He had come there with next to nothing except his technical knowledge, skill and experience. He got in touch with one or two weavers and said to them that he would tell then what they should produce and that he would sell their output. The weavers found that that was to their advantage. He gave them probably Rs. 50 or Rs. 100 or he rather gave them suitable yarn. The weavers produced the cloth and he sold that cloth. Thus he was able to develop this arrangement until when I was at the place he was working in co-operation with 70 and odd weavers. He became instead of the ordinary uneducated or unskilled sowcar their sowcar, their technical adviser, their salesman and their buyer. I saw quite a number of these weavers and they told me that since this gentleman came in, their earnings were more regular than before; they got constant work and their wages also were considerably higher than before. I asked this man whether he was also benefited. He told me that he started with a capital of Rs. 300 and now he is operating with a capital of Rs. 13,000 all of which had come out from the business which had taken him 10 years to build up. Judging from that, the idea occurred to me that if more trained men were made available the weaving industry would be benefited. It was partly with that in view that I put up to Government the proposal of starting a Central Handweaving Institute. In this Institute we have an Advanced course for training men of the type whose case I mentioned to you. As regards item (*b*) introduction of improved appliances, we have 23 institutions distributed over the various townships in this Presidency to introduce improved handlooms, machines for sizing and so on. These are all peripatetic institutions. They are equipped with improved looms and improved sizing appliances, etc. The weavers are invited to attend demonstrations. In large weaving centres we open a weaving school in which we take about 10 men at a time, and give them small scholarships for a period of 3 months. We give them yarn and they weave. We sell the cloth. The difference between the cost of the yarn and the sale price is credited to their account. The result is that they obtain every month from Rs. 15 to Rs. 20 being their part of the profit. Government take no profit. We merely take the cost of the yarn back. We give the students the profit in order to induce them to study in the school for a year so that they may be thoroughly conversant with the use of the fly shuttle loom, elementary designing and use of Dobby. We spend every year between Rs. 50,000 to Rs. 60,000 out of our budget for the development of the handloom industry.

President.—What is your total budget?

Mr. Advani.—It is in the neighbourhood of Rs. 4 lakhs. That includes Industrial and Technical Education.

Mr. Naik.—More than half goes for the Industrial and Technical Education.

Mr. Advani.—Something like Rs. 50,000 to Rs. 60,000 is spent for propaganda work amongst weavers. As regards item (*c*) Assisting the handloom weavers to weave cloths which do not come in direct competition with mills, our work is limited to those centres where demonstration parties or weaving schools are stationed from time to time. The primary function of my schools has been to introduce improved appliances, because the staff that is engaged for the school is more or less capable of that.

Mr. Rahimtoola.—It has a fully trained staff?

Mr. Advani.—Yes, trained in the use of the improved appliances. I would not say that that staff is trained in every case in the matter of design work or in the matter of ability to introduce improved designs. That is only restricted to some schools. But if more money becomes available, that will be one of the items of work on which it will be spent. As regards item (*d*) we are not able to do anything. The same remarks apply to items (*e*) and (*f*).

Mr. Rahimtoola.—I want to understand the position of the weaver as has been put to me. The weaver weaves a particular kind of sari and you have given us all the statement of his cost and so on. I am told that unless he is able to sell that sari, he is not able to manufacture another, is that correct?

Mr. Advani.—As I have said in the statement, vast majority of weavers are more or less in the pay of the sowcar. It works out in that way. That is he takes the yarn from the sowcar and he gives back the cloth to the sowcar.

Mr. Rahimtoola.—I am talking of the co-operative department. I am told that Government advances money to these handloom weavers and when the sari is made, it is sold either to the sowcar or to anybody in the market. If he wants to manufacture another sari without selling the one which he has made, he doesn't get the necessary advance.

Mr. Advani.—So far as my department is concerned, we are not in a position to think of any financial assistance.

Mr. Rahimtoola.—You are not advancing any money?

Mr. Advani.—No.

Mr. Rahimtoola.—Not even in the shape of loan?

Mr. Advani.—What we do is this: in our weaving schools which are peripatetic institutions—there are about 9 weaving schools—in each of which we are able to look after about 10 weavers at a time. We give these weavers necessary yarn to weave within the precincts of school and that cloth when it is ready is sold and the profit is credited to the weaver.

Mr. Rahimtoola.—It is the Co-operative Department?

Mr. Advani.—Co-operative Credit Societies amongst weavers no doubt advance money, but I am not aware whether the cloth has to be given back to the Societies. The position, so far as the Co-operative Societies are concerned, is I believe this. The Socities make an advance of Rs. 100 or Rs. 150 as the case may be and until that sum is returned, no further advance is made.

Mr. Rahimtoola.—The reason why I wanted to raise that point is this. I think you gave us to understand that you would like the weavers ultimately to be independent?

Mr. Advani.—Yes.

Mr. Rahimtoola.—I think that with the Societies having limited finance, the Sowcars on whom the weavers are dependent would be of more help to them. Whatever they turn out they give to the Sowcars and go on with their work.

Mr. Advani.—If there were no Sowcars, the weavers would have to shut down. There is at present no other alternative method of obtaining money from any source whatsoever.

President.—The whole of the agricultural system of this country would starve?

Mr. Advani.—Precisely What I wanted to make out was that if an alternative means of financing could be found, the weavers would be benefited. If, as in the example I gave of that young man, enlightened business methods could be introduced amongst Sowcars, that would be far more preferable than the present system.

Mr. Rahimtoola.—You have given us to understand that the hand weaving industry has got a big future?

Mr. Advani.—I don't think that it has a big future in the sense that it is likely to replace the mill industry. The position would be that the mill industry would gradually develop, but it will be an extremely long time before I would envisage the extinction of the handloom industry. What has happened is that as the total consumption of cloth in the country has increased, the handloom industry has been able to obtain a share of the increased annual demand.

Mr. Rahimtoola.—Has it a future or has it no future? "Big" is only an adjective which can or cannot be used having regard to the figures that have been put forward?

Mr. Advani.—I would like to know what you mean by the word "future". Do you mean by the word "future" whether the industry is going to continue or whether it is going to die a slow death?

Mr. Rahimtoola.—It is going to continue and live; that is the point of view I would put forward.

Mr. Advani.—It has a future to a certain extent. It will continue and live.

Mr. Rahimtoola.—You think that it has a future to a certain extent?

Mr. Advani.—Yes and it is likely to develop but not to such an extent that it will be a menace to the organised industry.

Mr. Rahimtoola.—From the figures it will appear that it has developed?

Mr. Advani.—Not to the same extent as the mill industry.

Mr. Rahimtoola.—It has developed?

Mr. Advani.—It has captured a share of the increased market.

Mr. Rahimtoola.—It is due to the taste of the people?

Mr. Advani.—Very largely. The chief staple cloth produced by the handloom weaver is the sari and that is the cloth used by a vast number of agriculturists. The hand weaver is able to meet the local demand and local taste in a manner which in many cases is not possible for the distant mills. Besides the villager has a firm belief that hand-made cloth lasts longer than mill cloth.

Mr. Rahimtoola.—The reason why I am asking you about the future of the handloom industry is that the Board has been asked to consider the specific duty on yarn and it is necessary to know from provincial Governments as to how far they are of opinion that the handloom industry ought to be supported because it has some kind of future and, as you yourself have pointed out in your memorandum because it provides a living for 2 million people in India.

Mr. Advani.—I am personally of the opinion that everything possible, subject to the larger interests of the country, should be done to assist the handloom industry.

Mr. Boag.—There is only one point I would like to ask and that is—what is the difference between the prices yarn in the market in Bombay and the prices at which the handweavers could actually get it? How many hands does it pass through before it actually reaches the weaver?

Mr. Advani.—I believe I have given you the ranges of prices from place to place in one of my Schedules.

President.—I don't remember to have seen it.

Mr. Advani.—I have collected the information but have not sent it on to you. I cannot tell you off-hand but I shall send it to you later on.

President.—If you could tell us the sort of spread between the market price in Bombay and the price paid by the weaver which of course includes the freight besides the middlemen's profit, we would be obliged. If you could get the information from half a dozen typical places, it would be very helpful.

Mr. Advani.—Yes.

Mr. Boag.—I think you said that 60 per cent. or more of the production of handlooms is counts below 20s?

Mr. Advani.—Yes. So far as lower counts are concerned, the handlooms supply 60 per cent. of the country's requirements of cloth—that is under 20s.

Mr. Boag.—Have you any idea as to what proportion of the production of handlooms is represented by the coarse cloth, medium cloth and fine cloth?

Mr. Advani.—I don't quite follow.

Mr. Boag.—If the total production of handlooms is 1,200 million yards, what proportion of that is represented by cloth woven from yarn of counts below 20s?

Mr. Advani.—I will try and get that for you.

President.—I suggest it is a little over 80 per cent.?

Mr. Advani.—It may be, but I should like to verify that and give you.

Mr. Boag.—Also I should like similar information about medium counts between 20s and 40s and above 40s?

Mr. Advani.—I will try to supply same.

THE INDIAN CENTRAL COTTON COMMITTEE, BOMBAY.

Evidence of Sir PURSHOTAMDAS THAKURDAS, Kt., Rao Sahib C. S. SHIRAHATTI, Rao Bahadur BHIMBHAI RANCHODJI NAIK, Messrs. S. D. SAKLATVALA, M. P. KOLHE and P. H. RAMA REDDI, recorded at Bombay on Friday, the 19th August, 1932.

President.—We are very glad, gentlemen, that you have come to give evidence in this enquiry. We are anxious to examine as closely as we can the connection between the agricultural and industrial aspects of the cotton industry. The Central Cotton Committee was good enough to send us a very full and valuable note on the various points that we referred to them for information and the questions that I shall ask this afternoon are questions that arise mainly from that note. But before I do that I would like to get a general idea of the way in which information in regard to cotton crops is collected and published. First with regard to these forecasts.

Sir Purshotamdas.—Regarding the first part of your remarks, I may say that of the five who appear before the Board to give evidence, three represent cotton growers—Mr. Shirahatti from Dharwar, Mr. Kolhe from Central Provinces and Berar and Rao Bahadur Naik from Surat. Mr. Saklatvala and myself come in as members of the Central Cotton Committee. Mr. Saklatvala is one of the *ex* Vice Presidents and I am a member of the Committee: Wo represent cotton industry and cotton trade on the Committee. The majority of us represent Indian agricultural interests and their position in the Central Cotton Committee is as representatives of the cotton growing interest. Regarding the latter part of your remarks, the Central Cotton Committee as such do not collect either information or statistics regarding acreage or yield. What they do is, they collate and publish information which is available to them through the Government departments.

President.—You are not the primary collecting agency?

Sir Purshotamdas.—No. As a matter of fact we did suggest to the Government of India in the Department of Education, Health and Lands as to how this Committee with their present organisation could deal with it more efficiently than the statistical department of the Government of India under Dr. Meek, and correspondence is still going on.

President.—Actually the publication of the combined forecast is the task of the Director General of Commercial Intelligence?

Sir Purshotamdas.—That is right. What has happened lately, since the last two years, is that at our request forecasts are wired out from Calcutta to the Central Cotton Committee and the Secretary to the Committee sees to it that it does not leak out before it is put before the trade at a stated hour with a view to preventing anybody from having any sort of advantage.

Mr. Rahimtoola.—In the whole of India?

Sir Purshotamdas.—In Bombay, which is the main market where money can be made or lost over this information.

President.—A forecast appeared in the papers this morning, that a forecast wired out to the Committee from Calcutta and the only part that the Central Cotton Committee plays in it is to see that it is not published prematurely?

Sir Purshotamdas.—That it is put before the public at one specified hour and so on, but if the forecast is correct the whole credit is due to the Statistical department of the Government of India.

President.—Would you or your colleagues be able to tell us although you are not responsible for collecting the statistics or publishing it officially—

how exactly these figures are collected? For example, take the forecast that appeared this morning. I understand that there are five forecasts which appear at different stages and what appeared this morning is the first forecast. Does that forecast give acreage as well as yield figures?

Sir Purshotamdas.—Only the acreage.

President.—What about the second?

Sir Purshotamdas.—Even in the second we get the acreage.

Mr. Reddi.—From the third we get both.

President.—And the third forecast appears about December?

Mr. Reddi.—Yes.

President.—And any estimate that people interested in cotton make with regard to the yield at this stage is simply by taking the acreage figure and multiplying it by the standard figure of yield?

Sir Purshotamdas.—What happens is this. I will now put before the Board the commercial view point. Before the acreage figure comes out firms who are interested in the purchase of cotton up-country know—they have their own organisation—the reduction or increase in the acreage approximately from their own reports. For instance, just now, it has been raining continuously for six weeks in Central Provinces and Berar and the commercial community have a fairly good idea as to what the benefit to the growing plant is likely to be after good sunshine in the next two weeks. These Government forecast have a great value but that is not the only thing available to the commercial community here. They have their own people reporting from week to week or twice a week and in some cases daily. You ask the ordinary average man dealing on tho cotton markot here any day in June or July and ask him again towards the end of August and you will get a fairly good idea as to how well he is in touch with what is happening.

President.—I am trying to understand the position. He gets the acreage figure from the published forecast; he compares it with the acreage figure say for last year and the year before and the weather conditions in those years.

Sir Purshotamdas.—Yes. He compares it from memory: he has no records. These men have been doing this and nothing else throughout their lives. Once I had an old broker at a very big cotton centre. Sometimes in the middle of July he would write to me a four-line letter which would give me more information about how the crop was developing than I could get from any other quarter. The man has been there ever since he was 15 years old, watching the growing plant, and, comparing it and what he told me from his memory and his observations was more valuable to me than what I could pick up from any other source.

President.—It is really calculating from two data. There is the acreage and there is the weather condition and it is the inter-action of these two factors that gives you the estimate?

Sir Purshotamdas.—Acreage is the most important factor.

President.—What I am trying to put before you is this: if the acreage figure plays a very important part in this, it is essential, considering its effect on the course of prices, that the acreage figures should be collected by an agency on whose powers of accurate collection you can place some reliance. Therefore I would like to know who are the primary collecting agents.

Sir Purshotamdas.—The information can best be obtained from the relative departments in various Provincial Governments. I will leave it at that. If I go further I may have to reveal some information which may not be accurate.

President.—Taking these five forecasts that appear through the year, the acreage figure in the second would be different from the first; the acreage figure in the third would be different from the second and the fourth different from the third. Between the fourth and the fifth, my own obser-

vations lead me to think that there would hardly be any difference as regards the acreage?

Sir Purshotamdas.—That is right.

President.—But all through this period the conditions that affect the yield vary from time to time?

Sir Purshotamdas.—It would be so. Between the first and the second something may have happened in one part of India or another. Even with canal irrigation it might so happen that canal water is not available for cotton irrigation at certain periods and therefore those figures would obviously undergo a change. Then take the third: there is very heavy rain in Central Provinces and Berar: it may be too late to re-sow cotton. It is not unusual to have changes.

President.—As a matter of fact the real reason why I say in the second and third forecasts the acreage figures would be considerably in excess of the first, is that fresh areas come successively under cultivation: or do you get the whole acreage under the different classes of cotton straight away at the time of the first forecast?

Sir Purshotamdas.—No.

President.—That accounts for the difference in acreage?

Sir Purshotamdas.—One does not look upon that as a change.

President.—Leaving alone the question of forecasts, I have been looking at the figures of total cotton production during the past five or six years and I find that ever since the year 1927-28 there has been a steady and in some years a very considerable decline in the yield per acre of Indian cotton. On the figures I have got here I estimate that it was about 96 lbs. per acre in 1927-28 and in 1931-32 it was as low as 68 lbs. How exactly is this accounted for? Is it entirely due to weather conditions?

Sir Purshotamdas.—Of course as far as yield is concerned, the main difference between India and America is this. In America fertilisers play a great part; in India there is nothing like it and therefore, barring weather conditions and proper rain during the monsoon, there is no other reason that I can think of as far as the lower or higher yield is concerned.

President.—It is entirely a matter of weather conditions?

Sir Purshotamdas.—Yes.

President.—In every thing that one reads about American cotton one finds that the question of fertilisers is considered very important and to that extent, as far as I understand American conditions, you are able to counteract weather conditions by the use of fertilisers, can't you.

Sir Purshotamdas.—Up to a point.

President.—You have experienced a steady decline in the yield of Indian cotton during a period of six years to the extent of about 35 per cent. and if that decline is attributed entirely to weather conditions, it looks to me that, as far as the Indian cultivator is concerned, he is entirely at the mercy of weather conditions which he need not be. My point is this: to a very considerable extent, as far as one knows, both in this country and elsewhere adverse weather conditions could be met by artificial methods of cultivation including irrigation; that is to say by artificial means you could obviate to some extent the difficulties which might arise out of adverse weather conditions. Now, the fact that we are entirely at the mercy of weather conditions seems to me to point to the fact that the question of improved methods of cultivation has probably not received the attention it deserves. If there has been a decline of 35 per cent. and that decline is due entirely to weather conditions and fertilisers play no part, then obviously the Indian cultivator of cotton is peculiarly helpless in the face of natural conditions.

Sir Purshotamdas.—In India weather conditions perhaps play a greater part than in other countries. In India in certain tracts there is too much rain and in others there is no rain at all. This is very difficult to counteract. If there is no rain for instance in America—what they call draught—

there is not so much difference in the intensity as there is in this country. There is greater variation in weather conditions in India than in the American cotton belt.

President.—Would you be prepared to say that this decline in yield that has taken place in the last five or six years could not have been materially helped by any improvement in the conditions of agriculture?

Sir Purshotamdas.—I would not say that.

President.—The difference in the natural conditions between India and America is such that even apart from fertilisers and artificial methods of improvement, natural conditions play a greater part in India. That is how you would put it?

Sir Purshotamdas.—You said just now "this large deterioration in outturn": I don't know what figure you are talking of?

Rao Bahadur Naik.—Are you comparing 1927-28 with 1931-32?

President.—I took the intermediate years too. If you look at page 25 taking the final forecast, if you take the acreage in the final forecast in each year from 1927-28, I find that the average works out to approximately 96 lbs. in the first year and then, 80, 82, 80 and 80 with regard to 1931-32.

Sir Purshotamdas.—Are not the same figures given on page 33 where the percentage is also given? Perhaps it would be easier if we went over that table, because the comparisons are in parallel columns.

President.—You have not got 1931-32 figures. As far as 1931-32 figures are concerned, I have taken the total yield given by the Central Cotton Committee in your last letter. Have you got the final figures?

Sir Purshotamdas.—No.

Mr. Naik.—The acreage in 1930-31 is much less than in 1927-28.

President.—I am speaking of the yield per acre. I take a figure of 4·06 million bales for 1931-32 and I take the acreage at 23·5 millions. Is that correct?

Sir Purshotamdas.—What is the average yield per acre that you get?

President.—I get 69.

Mr. Saklatvala.—In this particular year most of the short staple crop was destroyed. Instead of 4 millions the total might have been 6 millions without affecting the long staple quantity.

President.—As a result entirely of climatic conditions.

Mr. Saklatvala.—Yes.

Sir Purshotamdas.—What I wish to submit is if you are really examining that point, we must take figures over a period of years. The table on page 33 gives your figures for 9 years excepting 1931-32. Of course there are variations. I wonder if the variations are such as could be styled striking deterioration in the yield per acre. In the Madras Presidency from 74 it went down to 43, then 73, 78, 70, 84, 87, 83 and 81; and so on; Bombay highest is 98 and the lowest is 66.

President.—I will come to the question of Madras later. I am trying to lead up to another point. I will leave this question for the present. I will take it largely as a matter of weather conditions.

Sir Purshotamdas.—Yes.

President.—Our yield per acre is the lowest in the world.

Sir Purshotamdas.—That is so.

President.—The point that I want to get at is, is it true that the yield per acre on a short staple crop is lower than the yield on long staple cotton assuming that weather conditions are the same?

Mr. Naik.—It is quite the reverse.

President.—Our best is Cambodia.

Mr. Naik.—Yes.

President.—Which is I suppose our best yield.

Sir Purshotamdas.—That is so.

President.—Punjab and Sind Americans behave differently.

Mr. Shrihatti.—It is entirely matter of irrigation.

President.—Does superior cotton, give a larger yield than inferior cotton assuming conditions of cultivation to be the same? The fact that for example Uganda, America and other places have a much higher yield has nothing to do whatever with the fact that the cotton there is of superior quality to ours?

Mr. Naik.—No, because it is a superior cotton, it doesn't mean that it gives a better yield.

President.—If you will look at the provincial yields, page 33, I should like to get some idea of the conditions which bring about this considerable variation in the figures. If you take for example the United Provinces in 1930-31 you get 152 and Assam gives you 146. Why is Assam so high?

Sir Purshotamdas.—The Bombay market is not in touch with Assam. There is no representative of Assam on the Central Cotton Committee.

President.—As regards these variations in acreage may I take that it is largely a matter of the price yielded by cotton?

Sir Purshotamdas.—Quite so.

President.—Almost entirely.

Sir Purshotamdas.—Yes.

President.—That is to say the price realised for cotton as compared with the price realised for the alternative crop.

Sir Purshotamdas.—That is so.

President.—What are the crops which may be regarded as alternative crops taking weather conditions into account.

Sir Purshotamdas.—Grain. When they find that the price of cotton is too low, the cultivator naturally turns to cultivate food grains. He tries that for a year and when he finds the same depression there, he turns to cotton.

President.—If you look at the wholesale index prices the fall in the price of cotton has not been so great as in the price of food grains. If that is the correct indication of the relative position then in spite of the fact that cotton prices are very low, I take it the acreage will not be affected.

Sir Purshotamdas.—It is just because of that that the cotton crop does keep up to the point. It does in spite of cotton selling almost below the cost price during the last two years.

President.—Although it is bad, it is not as bad as the others.

Sir Purshotamdas.—Like jute it brings cash to the cultivator. Everything else has got to be stored and consumed by man himself. Cotton is a thing which will be bought by either Europe or Japan or by the local mills. It is looked upon as a cash crop.

President.—It is probably the most important crop.

Sir Purshotamdas.—It has been developed as the most important crop as you see from the acreage figures.

President.—If you take the total crop into account and take its export value, it is considerably in excess of any other commercial crop.

Sir Purshotamdas.—Cotton is by far the most important cash yielding crop.

President.—I will now leave these preliminary points and get on to the note which the Central Committee has given us. The Central Cotton Committee makes a distinction between long staple and commercial long staple. I understand the difference is this that long staple is cotton which has a staple of 7/8" and above; whereas commercial long staple is cotton which is not merely 7/8" and above, but has other intrinsic qualities like evenness and tensile strength required for spinning yarn of higher counts. I want to compare this tabular statement that you have given us with the

statement prepared by the Tariff Board in 1926. If you look at page 205 of that, may I take it the figures given in that table more or less correspond to the figures of commercial long staple that you have given us this time.

Sir Purshotamdas.—We have explained that.

President.—You say that it is cotton of the kind that would yield yarn 24s. and above.

Sir Purshotamdas.—What we call commercial crop is the crop as is looked upon in the trade, but the actual cotton which is suitable for the counts is the other one. Commercial crop is the larger quantity. In your mind it is the other way.

President.—The kind of long staple cotton from which you can manufacture warp yarn of 24s. and above.

Sir Purshotamdas.—That is not commercial crop.

President.—Shall we call that long staple?

Sir Purshotamdas.—Yes.

President.—Taking cotton suitable for the 24s warp this table at page 205 of the Tariff Board's report, would you consider that as being on the same basis. They give two figures, one is staple for warp 30s to 36s and weft 30s—36s. Supposing you had cotton that gave you 24s warp, you could get weft of higher counts from that.

Mr. Saklatvala.—Yes about as high as 34s.

President.—Therefore if you have two figures one for weft 30—36s and the other warp 30—36s, am I justified in thinking that the figures represent the quantity of cotton available for warp 24s up to weft 40s?

Mr. Saklatvala.—In giving figures separately some varieties of cotton might have overlapped.

President.—Leaving alone small variations of that kind what I want to know is in estimating the yield of long staple cotton for the year 1925-26 before the period of protection, can we take this as our starting point making allowance for small variations? That would be right?

Sir Purshotamdas.—Yes.

President.—Because we must have something to compare your figures with.

Sir Purshotamdas.—May I just read the following statement in our note? "The form of the statement defining long and short staple cotton sent in 1926 by the Committee to the Tariff Board was taken from the classification adopted in Annexure II of the Report of the Indian Cotton Committee of 1919 and in order to make the present day figures comparable with those submitted to the previous Board, the same classification has again been adopted. Cotton ⅞″ and over has been classified as long staple whole cotton up to ⅞″ has been taken as short staple. For mill purposes, however, many of the types included in the long staple class, due to uneveness in staple or lack of strength, fall short of the definition of the long staple cotton given below, *viz.*: that capable of spinning 24s warp counts and above. We therefore attach a second statement showing the quantity of commercial long staple cotton grown in India, *i.e.*, those qualities capable of spinning 24s warp counts and above".

President.—That doesn't meet my difficulty. I will tell you why. What you explain there is if you take two kinds of cotton in this country whose staple is ⅞″ and above, you would not necessarily get out of them both warp of 24s and above, because evenness, and tensile strength affect these things. Therefore you reject a lot of this cotton which are over ⅞ths in order to get your long staple cotton which is really useful for purposes of higher counts. This table which the Tariff Board gives here excludes a lot of cotton which is ⅞ths and above. Only a small portion of cotton which is ⅞ths is included in this statement. As a matter of fact the total long staple in that year 1925-26 was 2·1 million. You will find that in the next table out of that

they have taken a very small proportion as representing cotton which is really useful for higher counts of yarn. Therefore it is approximately the same basis of classification as yours.

Sir Purshotamdas.—The basis is the same.

President.—May I also say this if you had a quantity of cotton suitable for 30s—36s warp and also 30s—36s weft, practically you would have a quantity suitable for weft and warp together from 24s to 40s.

Sir Purshotamdas.—That would be right.

President.—If that is so I find calculating on these figures of 1925-26 that the percentage of the effective long staple cotton to the total crop has gone up from 6·3 per cent. in 1925-26 to 18 per cent. in 1931-32. I mean by effective long staple, the long staple that can be used for these higher counts.

Sir Purshotamdas.—If you go on making the comparisons of the relative whole crop of the year, it is true, but the actual thing to be borne in mind is that in 1931-32 the shortage in the crop was in short staple.

President.—Or was it the other way?

Sir Purshotamdas.—No. It was the short staple. You will see that "Oomras" which is our main crop was very short in 1931-32.

President.—That factor has to be taken into consideration.

Sir Purshotamdas.—Yes, you have got to take the quantity and not the percentage. As you know the Oomra crop failed in 1931-32. If that crop had been a normal one, the percentage you are comparing would vary materially.

President.—Supposing you took simply the long staple crop $\frac{7}{8}''$ and above in 1925-26 and 1931-32 and take the proportion in each year of effective long staple.

Sir Purshotamdas.—It is going up steadily, because the acreage is going up. All that I wanted to draw your attention to was that the percentage to the total crop of the year 1931-32 might be misleading.

President.—You admit there is an absolute increase, leaving out percentage figures?

Sir Purshotamdas.—Acreage shows it and our estimates confirm it.

President.—It is largely the result of the seed extension and other schemes of the Cotton Committee.

Sir Purshotamdas.—The result is also due to the larger demand at home (in India).

President.—It is worth while for the cultivator to try these new varieties. There is a greater demand for it, because it is being increasingly found worth while for the Cotton Textile Industry in this country to make superior kinds of cloth. Therefore it stands to reason that if assistance is given to the Cotton Textile Industry in respect of cloth of higher counts, it has a necessary reaction upon the extent to which superior cotton cultivation is undertaken.

Sir Purshotamdas.—Or *per contra* if the Indian mills were for any reason forced to spin only coarser counts, obviously it may not be worth the while of the grower.

President.—There is rather an embarrassing point which has occurred to me when I worked on your figures and I want to put that before you. If your figure is right on the total crop of 1931-32 it is approximately 18 per cent.?

Sir Purshotamdas.—It happens to be that.

President.—What I tried to see is this. Here is all this cotton which is not merely long staple cotton but which can be used effectively for the manufacture of yarn of 24s and above. To what extent has the existence of this supply of effecting long staple cotton in India been availed of and how far has that really been used by the textile industry for that purpose? Do you follow what I am trying get at? The way

in which I tried to work it out is this. I took the average Indian crop of the last three years. I got somewhere a figure of 4·6 million bales and then I applied this figure of 15 to 18 per cent. as the effective long staple portion of it.

Sir Purshotamdas.—You have taken the average crop as 4·6 million bales.

President.—If you take the average total crop of three years, it is 4·68 million bales.

Mr. Naik.—It must be more.

Sir Purshotamdas.—Here is a statement (shewn) showing the figures for over 5 years.

President.—That does not concern my purpose. My purpose is simply to find out from the average total crop of three recent years in India what may be regarded as the average amount of effective long staple cotton available in India suitable for 24s and above. If I took the proportion that I got from your figures of 18 per cent. and applied it to the average total crop in India for the last three years, then the resultant figure may be taken as the average amount of long staple cotton available.

Sir Purshotamdas.—This 18 per cent. is vitiated by the fact that Oomra crop had failed. Roughly speaking, you have to take India's crop as 6 million bales. If we produce that 735,000 bales would be about 11 to 12 per cent.

President.—Let us take it at 12 per cent.

Mr. Naik.—If you take the average of the last three years, it will come to about 15 to 16 per cent.

President.—Let us take it as one-eighth of the crop. In that case you get about 600,000 bales. If you take the average export from Madras of effective long staple cotton, it gives you somewhere about 130,000 bales. If you take the average of three years, it is a little less.

Sir Purshotamdas.—Say 70,000. Let us take it at 100,000 bales.

President.—500,000 bales (600,000—100,000) of cotton represent the available supply in the country?

Sir Purshotamdas.—Yes.

President.—500,000 bales would mean about 200 million lbs.

Sir Purshotamdas.—Yes.

President.—At this stage I tried to calculate the total quantity of yarn woven in Indian mills of counts 25s up to 40s.

Mr. Saklatvala.—I have calculated that.

President.—What is the figure?

Mr. Saklatvala.—1929-30—191 million lbs. of yarn. 1930-31—205 million lbs. of yarn. 1931-32—236 million lbs. of yarn. On an average we get about 200 million lbs. of yarn.

President.—Above 25s?

Mr. Saklatvala.—No. We have taken from 24s.

President.—How did you calculate that?

Mr. Saklatvala.—These are given in the statistics of cotton spinning and weaving in Indian Mills compiled by the Director General of Commercial Intelligence.

President.—I want 1931-32 figure. I want for 24s to 40s.

Mr. Saklatvala.—The figure for 1931-32 is 236 million lbs.

President.—How much is that in terms of raw cotton?

Mr. Saklatvala.—I have taken the average of three years which comes to about 200 million lbs. Adding 15 per cent. to this, we get 230,000,000 lbs. cotton which comes to about 575,000 bales of cotton.

President.—You have to take the imported cotton into account. Imported cotton last year was 470,000 bales. That would mean very nearly 190 million

lbs. of cotton. Of this 230 million lbs. of cotton that you used for yarn, 190 million lbs. was imported. What happened to this Indian cotton? That is what I want to know.

Mr. Saklatvala.—I have taken figures up to 40s only. Counts above 40s have not been taken into my calculation.

President.—You can do that if you like. A large part, not necessarily the greater part of Indian cotton which can be used effectively for the manufacture of yarn above 24s is not being used for that purpose. That is what it amounts to.

Mr. Saklatvala.—Yes, taking imports into account.

President.—Imports very nearly account for the whole of your production of 24s to 40s?

Mr. Saklatvala.—As a matter of fact, imported cotton except ordinary Americans is generally used for counts, 40s and above.

President.—What I am anxious to know is this. If this is not merely long staple cotton but long staple cotton which can be used effectively for this purpose and a large part of it is not used for that purpose, then there must be a waste of wealth somewhere because there is a difference in value between long staple and short staple cottons.

Mr. Saklatvala.—I will explain that. We have taken into account from 24s. A good deal of this cotton is certainly used for say 21s, 22s and 23s also. In our own mills, for instance, we produce 22s warp from the same cotton which is being used in other mills for 24s warp.

President.—You can work it out.

Mr. Saklatvala.—That depends on the yarn you wish to produce and the quality of the cloth. Some people can make use of a certain variety of cotton and try to get a higher count out of it by giving it a greater twist so as to impart strength to the yarn. Others would prefer to have a coarser count of yarn spun from the same cotton with much less twist which gives nice full yarn and the cloth has a better look.

President.—Would you consider this an outrageous proposition that a large part—I don't say the greater part—of Indian cotton which ought really to be useful for making yarns of higher counts is used in India for the purpose of manufacturing yarns of lower counts. The result is that either the textile industry is using high priced material for the production of low priced stuff or the cultivator by giving high priced cotton to the textile industry is getting a return equivalent to that of the low priced cotton. One of two things must happen. In either case, there is a waste of wealth.

Mr. Saklatvala.—Some cotton is also used for hand spinning, the quantity of which we do not know.

President.—The largest figure is about 50.

Mr. Saklatvala.—We have given here some reasons also.

President.—I have mentioned this point by way of introduction to the question of import duty on raw cotton. If it is true that as a result of the break in the price relation between foreign cottons and Indian cottons, it is possible for you to get foreign cotton suitable for higher counts at a lower price than Indian cotton of the same quality, then obviously the Indian cotton would be relegated to a purpose which is somewhat inferior to the purpose for which nature has intended it and therefore the cultivator or somebody else loses in the process. If you take about 6 pies per lb. as the difference between long staple and short staple cottons, on a very conservative estimate, about Rs. 50 to 60 lakhs is being lost by somebody, unless I am wrong in my calculations. That brings me to the question of the duty on cotton.

Sir Purshotamdas.—I am afraid that the inference which you have drawn is one which we must have time to examine. I will tell you why. I know

that you won't misunderstand me. I think you asked whether it would be outrageous to make the proposition which you have made. It is certainly a novel aspect and I submit with due deference to you that we should be given time to go into it. I think that it won't do to go into averages for this reason. In 1930-31, we imported 470,000 bales, in 1929-30, about 164,000 bales and if you take the year 1926-27, the figure is 474,000 bales—a figure which you have not taken. You have to take the production of each year and the import of that very relative year.

President.—Excuse me, that does not touch my point. I will tell you what my point is. I am not suggesting for a moment that from year to year this sort of thing is going on but whenever there happens to be a break in the price relation—in 1926-27 those large imports were due to the break in the price relation—the Indian cultivator stands to lose tremendously if he is not given some assistance.

Sir Purshotamdas.—By assistance, you mean protection?

President.—By a duty on raw cotton. I will tell you what I found on an examination of the figures. In 1921-22, there was a break in the price relation on account of the bumper crop in America. In 1926-27, there was a similar break. Again in 1931-32 there was a break in the price relation. Thus in the course of ten years, the Indian cultivator was faced with severe competition three times from lower priced foreign cotton.

Sir Purshotamdas.—You have mentioned that there is a great wastage. On whose part is the wastage? Who suffers?

President.—That is what I want to know from the Cotton Committee.

Sir Purshotamdas. I am not able to follow the figures which you have taken. If you leave this over for the present, we shall go into it when the record of evidence is sent to us.

President.—By 15th September, if you could send us a note, it would be helpful.

Sir Purshotamdas. I can assure you that the intention of the Indian Central Cotton Committee, and indeed of any Cotton body is to get at the truth in this matter. You are in search of it and we may be groping for it. The scientific manner in which you have tried to look at it is an aspect of the question which appeals to me. The only feeling I have is this. After all, we are practical people and such an important aspect would not escape us for so long. Anyway, we shall look into this question carefully and let you know.

President.—I should be obliged if you would. All that I meant to do was to put before you the point as it occurred to me simply by an examination of the figures.

Sir Purshotamdas.—All that I need say at the moment is that if you will leave it over, we will go into it more fully and then we will either confirm what you have said. . . . .

President.—Or smash it if you like!

Sir Purshotamdas.—Or we will put before you any other aspect which may strike us.

President.—There is another aspect of this point which has also given me a certain amount of anxiety. I have been brought up in the comforting belief that as far as short staple cotton was concerned, we were in a position of absolute security. We had a virtual monopoly. I had that idea from one of the publications of the Indian Central Cotton Committee in which they used the phrase "virtual monopoly". I should like to know if that statement is still true.

Sir Purshotamdas. We have some figures which will interest you. "The Empire Cotton Growing Review" has a classification of the world's cotton crops for 1930-31. The figures are given under three groups, *viz.*, above

$1\frac{3}{8}''$, $\frac{7}{8}$ to $1\frac{1}{8}''$ and under $\frac{7}{8}''$. The last group is practically short staple cotton.

Variety.	Where grown.	Bales.	Wt. of bales.
American, Indian, etc..	U. S. A.	1,834,100	(500)
	India	3,500,000	(400)
	Korea, etc.	150,000	(500)
	East Indies	13,000	(500)
	China	2,000,000	(500)
	Persia.	124,000	(500)
	Asia Minor	80,000	(500)
	Total .	7,701,100	
	or 70 lakhs bales of 500 lbs.		

President.—What is the Russian figure? I happened to come across a chart as part of the 5 year plan.

Sir Purshotamdas.—Here is a report we have received from the Empire Marketing Board. This is their report on the quality of Russian cotton. The first paragraph reads as follows:—

"The Russian cotton used in the United Kingdom has, so far, replaced American. There is no existing Empire crop whose spinning qualities would be exactly reproduced by Russian cotton, and there appears to be no movement among spinners to use Russian instead of any Empire growth".

President.—That is in Lancashire?

Sir Purshotamdas.—They don't use Russian cotton. If your inference is that they grow staple cotton which they use themselves or export somewhere else, we have no information.

President.—I have got the Russian figure from the Bombay Cotton Annual, on page 142. I gathered that practically the whole of it was either less than $\frac{7}{8}''$ or was suitable only for use as short staple cotton.

Sir Purshotamdas.—This only gives the total crop of Russian cotton but I don't think it has any reference to its staple.

President.—On your figures what proportion does the Indian crop bear to the total cotton?

Sir Purshotamdas.—Of the 70 lakhs bales India grows 28 lakhs, America grows 18, China 20 lakhs.

Rao Bahadur Naik.—India grows about 40 per cent.

President.—On these figures is there any justification for us to be anxious about the situation? What I mean is this: supposing there was again a disturbance in the price relation of the sort we have had two or three times during this period, it is not merely American long staple that may come into this country, American short staple may come, even below $\frac{7}{8}''$.

Sir Purshotamdas.—That is the only reason why I was trying to say a word regarding the importance of this pamphlet, that whilst other countries grow quantities which are fairly close to the Indian quantity, that is not available to the world: what is available is the Indian short staple cotton, as America and China use most of their short staple cotton themselves.

China sends a little to Japan. The bulk of the short staple cotton which is available to the world is the Indian short staple cotton.

President.—Therefore India has the only balance available?

Sir Purshotamdas.—That is it. It is only Indian short staple cotton which is available and indeed which is sold, and if any country wants short staple cotton it must turn to India.

President.—I have seen a reference in one of John Todd's reports that there has been a steady deterioration in the quality of American cotton, for the past few years. If that deterioration goes on the position might become increasingly less secure for India?

Sir Purshotamdas.—That depends on how soon revival in world trade comes on, and the price of raw materials goes up. If the Americans do not fertilise the soil I should not be surprised if within the next ten years it gets closer to the point of the Indian soil. We have been drawing out of the soil and putting nothing in the shape of fertilisers in India. Nature is the same all over the world; it may take a little longer in the case of America but I wouldn't be surprised if that happens.

President.—This is what I gather from Todd's report that there has been very considerable deterioration in American cotton, nearly 20 per cent. of the crop being now definitely below $\frac{7}{8}''$.

Sir Purshotamdas.—That is right.

President.—Having put these two aspects before you, I had better take them in conjunction with what you have stated in your note yourselves, that about 75 per cent. of the American imports definitely come into competition with Indian long staple, and taking the figures that you have given, 75 per cent. of American is about 25 per cent. of the total imports of cotton into this country; in other words it competes with 18 per cent. of our total, taking the last year's figures.

Sir Purshotamdas.—18 or 12 whichever way you look at it.

President.—On those figures would the Board be justified in recommending to the Legislature that the interest of the cultivator has to be safeguarded by a duty on cotton?

Sir Purshotamdas.—There is the distinction to be drawn between where competition with Indian cotton really matters and the point beyond which there is no competition.

President.—When you say that, aren't you to some extent ignoring indirect competition. One inch does not necessarily compete with one inch, it may compete with little over one inch or below one inch and therefore when you fix the competition you have got to allow a margin.

Sir Purshotamdas.—The point is, at a certain stage we really cannot use Indian cotton. For example, you can't use Indian cotton for the purpose for which Egyptian or Uganda cotton is used.

President.—Take the 25 per cent. American cotton which is longer than our long staple cotton. Supposing $1\frac{1}{8}''$ American cotton on account of disturbance in the price relation can be bought at practically the same price as, say, $1''$ Indian cotton, would you buy Indian?

Sir Purshotamdas.—Yes, under those extraordinary circumstances.

President.—Would you call that a very extraordinary circumstance?

Sir Purshotamdas.—One might say that under those circumstances one might turn to it. It is very usual: a spinner does not throw away Rs. 5 per candy and he would do it only if he has got to pay only a nominal fraction more to get that cotton. The other point is, the average careful spinner does not change his mixing avoidably because if he accustoms his customer to a particular kind of cloth and does not keep to it then he will suffer in the next six months.

President.—Let me put it from another point of view. Supposing I get this $1\frac{1}{8}''$ cotton and use it for making the kind of cloth for which it is

generally used; if the price of that class of cotton goes down my cost of making that type of superior cloth correspondingly goes down, isn't that so?

Sir Purshotamdas.—Yes.

President.—Then that particular kind of cloth relatively becomes cheaper and therefore the man who has been using an inferior quality of cloth woven from Indian cotton, considering that the other has become relatively cheaper, will try to use it. Indirect competition might come from the cloth end?

Sir Purshotamdas.—I would not say that it is impossible. But the way in which we in the Central Cotton Committee look at it as stated in our reply to question 2 (*b*) is from the general point of view. Under normal circumstances what would happen if a land slide like last year comes on the cotton market and everything is upset. I take it we are now dealing with normal circumstances. Taking into consideration one or two abnormal depressions which come every decade, I feel that what the Central Cotton Committee wants is protection from competition from abroad. Anything which you might put beyond that, to my mind, would be putting a handicap to the local industry, and that is the point of view from which we look at it. It may overlap I agree, and if you say 'put a little margin' I won't say that it is unreasonable. We want to see that the cotton cultivator gets protection for all that he grows and is therefore entitled to: beyond that an additional handicap to the local mill industry would be unfortunate.

President.—Would it be possible for you to make your suggestion a little more concrete? What is the grade that you would fix?

Sir Purshotamdas.—It has been said in our reply: $\frac{7}{8}''$ to $1''$.

President.—That is to say the duty would be applicable to all classes of cotton $1''$ and below?

Sir Purshotamdas.—Yes. Import of raw cotton if it was one inch and below should have a duty which will be deterrent if you like it to be so: I know some of my colleagues suggest that it must be prohibitive!

President.—What is the opinion of the Committee regarding the rate at which the duty should be imposed?

Sir Purshotamdas.—I don't think we have discussed that in the Committee, some of my colleagues may be in a position to say what that rate should be, but the general opinion of my Committee is that it ought to be adequate to give them protection.

Mr. Rahimtoola.—Sir Purshotamdas, you have simply mentioned that the present duty has benefited the cultivator.

Sir Purshotamdas.—In the circumstances of the year.

Mr. Rahimtoola.—It is not only under these conditions but you are of opinion that under normal conditions and circumstances the present duty has benefited and would benefit the cotton grower?

Sir Purshotamdas.—That is right.

President.—I rather gather from that statement that the continuance of the duty at the present rate is more or less what the Committee would recommend?

Sir Purshotamdas.—Yes.

President.—There is just one other point I would like to raise. Supposing we accepted the suggestion that the duty should be restricted to cotton of particular grades, is it possible at the Custom House to make the necessary examination?

Sir Purshotamdas.—No, not at the Custom House. I feel that that could be made in two ways: first a certificate at the other end by the New York Cotton Exchange and secondly by a confirmation of that certificate by the technological laboratory of the Central Cotton Committee which is an impartial body unconnected with any trading association, and the cotton could be held in bond here or the importer could pay a certain amount of deposit until the test is declared.

Mr. Rahimtoola.—Would it not involve a certain amount of delay?

Sir Purshotamdas.—One can't have it both ways.

Mr. Rahimtoola.—I wanted to say that there should not be unavoidable delay in the matter which might affect the trade.

Sir Purshotamdas.—The spinner can go on using the cotton after paying a deposit and if the report says that the cotton is 1″ and over, the amount of deposit can be refunded.

President.—In a commodity like cotton a mere examination of the certificate from invoices might be sufficient without actual examination of the stuff?

Sir Purshotamdas.—I think a little check at this end would be useful and I don't think it would be very costly. A certificate from the other end would be a *primâ facie* proof but a check would be useful.

Mr. Rahimtoola.—Your point of view is that there would not be any difficulty in putting it into force?

Sir Purshotamdas.—No.

President.—In all cases in which imported articles are tested for Customs purposes, it is necessary to provide a margin for errors in testing. What margin would the Committee suggest?

Sir Purshotamdas.—I am afraid I will have to ask for time: we will have to discuss it.

President.—I am rather anxious on that score.

Sir Purshotamdas.—I am likely to have a meeting of my Committee here in the first week of September and we could give you some idea then.

President.—That is a kind of problem that has arisen in other industries and it is always the practice of the Tariff Board and the Customs authorities to allow a certain margin for errors in testing. If it came to the question of fixing a margin (*a*) to provide against indirect competition and (*b*) to allow for errors in testing, what is the sort of margin that you would like to suggest?

Sir Purshotamdas.—I will consider that.

President.—If you will send us the information by the middle of September it would be useful.

Mr. Rahimtoola.—With regard to the answer that you have given in regard to long staple cotton you have stated that one of the reasons why long staple cotton is unobtainable is the malpractice of mixing. I would like to have some details about it.

Sir Purshotamdas.—We are distinguishing now between the quantity of real staple available and the quantity available in commercial terms. Normally the full quantity grown should be available to the industry, but it is not fully available because it is used for the purpose of mixing.

Mr. Rahimtoola.—Your organisation is one of those who ought to go to the bottom of this for that very reason. If you see the figures given in Table I and compare them with the figures in Table II—1,320 to 735—you will find there is a big drop and I thought that your organisation might be able to do something so that the malpractice of mixing might be avoided to a great extent.

Sir Purshotamdas.—We have got to go a long way before we could do something very effective. A little is done. I don't think the Central Cotton Committee claim that mixing has been reduced very effectively, nor do they expect that they have any measures before them at the moment—licensing of gins and presses—which will reduce it within the next one or two years.

Mr. Rahimtoola.—In answer to question 3 (*b*) you have replied to that question in the negative. We have received some representations on this question and we have heard people saying that some of the Japanese people go to the villages and get cotton at a cheaper price than what is sold in

the market. Have you any information regarding that? What is the system of those who wish to send cotton out of India? Do they buy it in the market here or do they buy it in the villages.

Sir Purshotamdas.—Even in the villages there is competition. It is not as if the exporter alone has access to the villager and others have not. Even the local merchant who acts as a sort of middleman between the grower and the Bombay firms buying in market centres is always at the door steps of the cultivator perhaps earlier than the exporter. I should be very much surprised if I was told that the exporter had a preference in the eyes of the cultivator over anybody else.

Mr. Rahimtoola.—It is not a question of anybody having a preference in the eyes of the cultivator; it is the ready monoy that counts.

Sir Purshotamdas.—Surely everybody buys on equal terms.

Mr. Rahimtoola.—That is the only point we wanted to understand that there is no unfairness in the treatment meted out to the cultivator.

Sir Purshotamdas.—The Indian middleman pays as much money as the exporter. I don't think one pays more than the other.

MESSRS. MARTIN AND COMPANY, LIMITTED, CALCUTTA.

Evidence of Mr. K. C. MAHINDRA, recorded at Calcutta on Thursday, the 15th September, 1932.

President.—Mr. Mahindra, I want to begin by saying that we are grateful to Messrs. Martin and Company for agreeing to send their representative to assist us in this enquiry and I am particularly grateful to you for the very valuable note you have sent us.

Mr. Mahindra.—It is very kind of you to say so. I have been authorised by my firm to place before you all the facts and figures that you require, irrespective of the arguments in my note.

President.—I understand from the letter that you have sent us that while the opinions expressed in your note are your own, the general line of argument has the approval of your firm.

Mr. Mahindra.—Yes, that is correct.

President.—The first thing is to get a general idea of the main features of the Managing Agency system generally in Calcutta as compared with the features of the system in other parts of India, say Bombay and Ahmedabad. We have got some facts about Bombay and Ahmedabad. As far as that is concerned, we could give you details and you might tell us whether in regard to various aspects of the Managing Agency system, the Bombay and the Ahmedabad systems differ from the system here as you know it.

Mr. Mahindra.—Yes.

President.—I want to take first the period of agreement. You sent us 3 or 4 typical agreements executed by your firm and we have also had typical agreements of that kind sent to us by two other Agency Houses here, Messrs. Bird and Company and Messrs. Andrew Yule and Company. As I understand the position in Bombay you might say the normal arrangement with regard to tenure you have an initial period fixed which is 20, 30 and quite often 40 years and his removal at the end of that period is subject to an extraordinary resolution of the Company to be passed in several cases by three-fourths majority, but in quite a number of cases four-fifths or five-sixths majority. That is generally the arrangement in Bombay. In Ahmedabad almost invariably it is a permanent and non-changeable arrangement. That is the phrase used in Ahmedabad agreements. From the agreements that I have seen on the Calcutta side the periods are 10, 15, or 20 years certain, and thereafter subject to an extraordinary resolution for which a majority of three-fourths is required.

Mr. Mahindra.—That is the position. In the majority of Companies under the control of Messrs. Martin and Company, the initial minimum period fixed is 10 years.

President.—That is the normal period.

Mr. Mahindra.—Yes in the majority of Companies. There are a few cases—I should say not more than 15 per cent.—where there is a fixed minimum tenure of 15 years but never more than 20.

President.—Are you able to tell us about the Managing Agency agreements of other important houses, as far as you know. Supposing we said it seldom exceeds 15 years in Calcutta, will that be a correct statement?

Mr. Mahindra.—As far as my knowledge goes, that will be correct.

President.—I have to make certain comments on these points later on.

Mr. Mahindra.—May I just add a rider to that? I think I made a scrutiny of most of the Managing Agency Agreements as they were in force before the war and after the war. The usual fixed minimum period of tenure before the war used to be 10 years, but subsequent to the war, I think in 1920-1921, when prices were at the top level and all the industries were

floated at most expensive costs; then came the reaction and prices dropped down; just about that time the tenure began to be changed. Gradually without any definite intention on the part of the Managing Agents the period became 15 years.

Mr. Rahimtoola.—To-day the average is 15.

Mr. Mahindra.—The usual in my firm is only 10.

Mr. Rahimtoola.—When you said about 15 per cent., I wanted to know whether the average would be 15 per cent. throughout Calcutta.

Mr. Mahindra.—My knowledge is not complete.

President.—Now I come to the question of remuneration.

Mr. Mahindra.—As far as this fixed minimum tenure is concerned, in most of our Managing Agency Agreements there is a proviso: any time during this fixed minimum period, or after that if the same Managing Agents continue in office, should there be a breach of the agency agreement it is at the discretion of the Directors to give notice to the Managing Agents.

President.—Does the notice become effective entirely on the responsibility of the Directors?

Mr. Mahindra.—Yes.

President.—Supposing, for example, there is a distinct breach of the agreement in respect of obligations of Managing Agents and the Directors on that account give notice to the Managing Agents, can you say at the end of 6 months "you have not fulfilled your obligations in regard to this part of the agreement and therefore we give you notice at the end of 6 months".

Mr. Mahindra.—The usual words are "provided if the Managing Agents fail to observe the terms of the agreement, the Directors may at any time during the fixed minimum period or thereafter give notice to terminate the agreement".

President.—There is no reference to the shareholders?

Mr. Mahindra.—As I have tried to bring it out in my memorandum, every care is taken that the Board of Directors' control is really effective.

President.—That is a very interesting fact. That makes the control real and effective.

Mr. Rahimtoola.—You have referred to that on page 13. Are the Board of Directors independent of the Managing Agent?

Mr. Mahindra.—I would like you to define the word 'independent'.

Mr. Rahimtoola.—Independent in the sense that they are not interested.

President.—In that case, of course, the only remedy open to the Managing Agents, if he fails for example and notice has been given, he goes to a Court of Law.

Mr. Mahindra.—Arbitration clause is usually absent in the Managing Agency Agreement. If there is a difference of opinion about the interpretation of the agreement, they go to the Company's Solicitors.

President.—Is there a definite arrangement provided for in the agreement? What form does the arbitration take place?

Mr. Mahindra.—Both parties come to an arrangement if they so choose. I will read out the provision which is given in my note on page 10. "It shall be lawful for the Board to direct the Managing Agents not to act on the view held by them until the matter shall have been laid before the shareholders in General Meeting".

President.—Is that a normal feature of your agreements?

Mr. Mahindra.—Yes.

President.—Now I come to the question of remuneration. I mean by remuneration also contributions made by the Company towards expenses. I am including that in the term "remuneration". There is first an office-

allowance, a fixed amount which varies from Rs. 1,000 to Rs. 3,000 a month. There is one case in which it is Rs. 10,000.

Mr. Mahindra.—In my firm it ranges from Rs. 250 to Rs. 1,500 a month.

President.—In addition to that there is the usual commission. A commission in the case of most of the Bombay Companies is calculated on profit, profit meaning gross profit in the sense of profit before depreciation and the rate is generally 10 per cent. calculated on that basis. Then in quite a number of cases this commission is subject to a minimum which varies from Rs. 6,000 a year sometimes to Rs. 1,00,000.

Mr. Mahindra.—Rs. 1,20,000 is mentioned by the Bombay Shareholders' Association.

President.—In Ahmedabad it is generally the commission. There is no office allowance and the commission is on sales, but the commission on sales may be given either at so much per cent. on the value of sales or it may be given in the form of so much per lb. sold. Whether it is calculated on the one basis or the other is dependent upon the agents. I mean it is left to the option of the agents. In addition to that if the company is engaged in any transaction other than the manufacture of cotton piece-goods, supposing, for example, there is a ginning department, then profit is also allowed on bills of work in connection with that particular department which would be practically profits in transactions other than the manufacture of piece-goods. Along with that, there are in many cases an agreement to this effect that if the Company does not earn enough to pay 6 per cent. dividend, the agents will then forego the commission up to a third of the total commission which may be earned. In most cases in Ahmedabad the Managing Agency is constituted of what may be called co-parcenery. A large number of people have shares, total share being 16 annas. While the Managing Agent probably holds a greater part of it, quite a large number of people have subsidiary interests of that kind. In Calcutta the office allowance is an invariable feature. Now the actual remuneration of the Managing Agents in most cases is calculated on profit.

President.—What is your own impression? You make a statement in your note that as far as your firm is concerned, profit means nett profit, that is to say, profit after depreciation has been set aside.

Mr. Mahindra.—Yes, in most cases after providing for depreciation and in all cases after providing for interest on loans, etc.

President.—Generally am I right in thinking that in Calcutta too commission on profit means commission on profit before depreciation?

Mr. Mahindra.—I don't think I will accept that as a general statement.

President.—You would not?

Mr. Mahindra.—No.

President.—In practically every enquiry that we have done there are exceptions that I can think of but in most cases I believe we were told that the commission was calculated on the nett profit *plus* depreciation?

Mr. Mahindra.—I have just made a rough count of some of our companies: commission is paid on profits calculated after deducting depreciation in 16 of our companies as against 8, where depreciation is not deducted.

President.—In one of the agreements that you sent us—I am sorry I have not got those agreements here—I think I noticed that it was calculated on gross profit in the sense of profit *plus* depreciation—I forget which it was. Anyway that is a small point. If 16 out of 24 companies are based on the other system, I take it that that is the normal feature as far as you are concerned?

Mr. Mahindra.—Out of the 8, 7 belong to what may be called public utility service.

President.—You put them in a special category?

Mr. Mahindra.—Yes.

President.—Is there any minimum commission provided?

Mr. Mahindra.—No.

President.—None at all?

Mr. Mahindra.—Not in these companies. There are a few cases however where there is a 10 per cent. commission provided on annual profits but if profits are less than 4 per cent. on the paid up capital, then the minimum commission is Rs. 2,400 a year.

President.—Does that occur in several cases?

Mr. Mahindra.—That occurs only in three or four light railway companies under our control. There is no minimum commission provided anywhere else.

President.—That applies to the public utility companies?

Mr. Mahindra.—No.

President.—Would you not call a railway company a public utility concern?

Mr. Mahindra.—Not in that sense. In the case of our light railway companies, it is an arrangement more or less between the Government of India or local authorities, Managing Agents and the shareholders. The Government of India or the local authorities guarantee a certain minimum return on the capital to the shareholders. Therefore the Managing Agents are not entitled to earn any commission on profit, until that guaranteed percentage is earned for the shareholders. The office allowance, as I have pointed out, is really a return for out of pocket expenses. For the services of Managing Agents themselves, for supervision and control, the minimum amount of Rs. 2,400 a year is provided. All these managing agency agreements were made prior to 1905.

President.—Long before the war?

Mr. Mahindra.—Yes.

President.—The next point which I want to discuss is the basis of this remuneration in its reaction on the whole system later on. As regards the managing agent performing services for the company other than the management of the concern, having contracts for the purpose of purchases and sales and in respect of insurance, etc., it seems to me that the position at all these three centres is similar. There does not seem to be very much difference. From your note I gather not only you do not consider that there is a fundamental objection to the system but you think that in certain respects it makes for considerably more economical management.

Mr. Mahindra.—That is my opinion.

President.—With regard to the powers of Directors, the provision which you find generally in Bombay agreements is expressed in the phrase which commonly occurs in your agreements "subject to the supervision and control of Directors". But I have formed the impression that while that phrase is used, the precise character of the duties and the obligations attaching to the managing agent is not specified in the agreements in the detail in which they are apparently stated in your agreements in Calcutta; that is to say, the managing agent is expected to carry on the business of the Company subject to the control and supervision of Directors. Not very much more than that is said.

Mr. Mahindra.—You mean on the Bombay side?

President.—Yes. The difference that I can gather between Bombay and Calcutta is that here in Calcutta the duties and obligations of managing agents are stated in much greater detail in addition to the provision for control and supervision by the Directors. As far as Calcutta is concerned, that is a correct statement. You have a detailed statement in most of the agreements. It sometimes extends to 2, 3 or 4 clauses.

Mr. Mahindra.—This is the sort of comprehensive clause giving powers to the managing agents as to what they can do (handed in).

President.—Then, when the duties and obligations of the managing agents have been stated with this fullness and in this detail, it follows that whatever other developments may arise in connection with the management, they should be regarded primarily as the business of the Directors; that is to say, what I am trying to get at is under your system, the residue of power is with the Board of Directors.

Mr. Mahindra.—I would not go so far as that, because in the Articles of Association of almost every company with which I have had some connection, there are usually inserted elaborate clauses as to what the Directors are authorised to do. Practically all the powers of management, direction and control and also detailed supervision are vested in the Directors specifically item by item. In addition, the managing agents are instructed to carry out certain statutory duties as provided for in the Companies Act, but in order to carry on the day to day work of the company they are also specifically given certain powers which are outlined in their agreements. So, whatever the powers of managing agents, they derive them directly from the Company under the supervision and control of Directors.

President.—Supposing for example a form of irregularity arises, some development arises in connection with the Company which is not definitely provided for in the agreements either as resting upon the Directors or as resting upon the managing agents, then I take it that the effect of the agreements is that it is the Directors' business to attend to that?

Mr. Mahindra.—Yes.

President.—That means of course the residue of power is with the Directors?

Mr. Mahindra.—Yes to that extent. As a matter of fact, that reminds me of two cases where we found that the managing agents' powers did not cover a particular action they wished to take. They went to the Directors and the Directors themselves were not sure whether they could authorise action on that. Special meetings of the shareholders had to be called for.

President.—But that rather goes against the idea of residual power being with the Directors?

Mr. Mahindra.—That is the point I wanted to bring out. The supreme power is really with the shareholders. The shareholders give to the Directors certain specific powers under the Articles. They also give to the managing agents certain powers under the direction and control of the Board of Directors.

President.—Is this case you refer to a normal case?

Mr. Mahindra.—No, it is a very exceptional case.

President.—Generally we may say that the residue of power lies with the Directors but in exceptional cases this residue rests with the shareholders?

Mr. Mahindra.—Naturally; that is the Companies Act.

President.—But you may also say that in the abstract the residual power is with the shareholders but in practice the residual power is exercised by the Directors?

Mr. Mahindra.—Yes.

President.—That would be a correct statement?

Mr. Mahindra.—Yes.

President.—The number of Directors nominated by managing agents is generally one to two.

Mr. Mahindra.—Generally one, occasionally two, in the Companies under the control of my firm.

President.—I believe the position is more or less the same in other parts of India. On transfer of the Company's business to some other corporation or firm, the managing agent has the right to continue as agent during the period fixed in the agreement?

Mr. Mahindra.—No.

President.—Hasn't he?

Mr. Mahindra.—In practically every case, if the Company is wound up the managing agents have no right?

President.—If it is wound up, it is a different proposition.

Mr. Mahindra.—If you will define the word 'transfer', then I will be able to give an answer.

President.—Supposing the business is sold?

Mr. Mahindra.—So far as the business of a limited joint stock company is concerned, how is it sold? If it is sold, you must wind up the Company.

President.—So that question can only arise when the concern is wound up?

Mr. Mahindra.—Of course they can transfer part of the property. They may sell part of the assets.

President.—Supposing a Company has three or four departments and all the plant and machinery of one department is sold without the Company going into liquidation to another joint stock company, what would be the position in that case?

Mr. Mahindra.—There is no provision made for managing agents either for compensation or for continuance in cases of such sales of part of the assets of the Company.

President.—In that case, does the managing agent continue to look after the department's business although it has been transferred to another company?

Mr. Mahindra.—No, I should not think so. If a particular department of a company is transferred to another joint stock company, the former becomes a sleeping partner. It has no control in that.

President.—When a company is wound up, is there any provision here for compensation to the managing agent?

Mr. Mahindra.—No. Perhaps I should qualify that. I have made a definite statement that there is no compensation whatsoever on liquidation. That is true generally as far as it goes, but there is one exception in my firm. In the case of one company it is provided that if the company is reconstructed, then the managing agents will have the option to continue as managing agents of the reconstructed company. But that is a very special case where the managing agents had lost quite a good bit of money. The instance was a group of 5 or 6 collieries, all promoted and sponsored by my firm. They got into difficulties and lost most of their capital which belonged to Messrs. Martin and Company. Then, they were amalgamated and a new joint stock company was promoted. In it also Messrs. Martin and Company hold a majority of shares and in order, you may say, to compensate themselves for the loss incurred in the previous concerns, this provision was inserted although it was against the wishes of our senior Director.

President.—Supposing in a case of that kind the renewal was not made, the managing agents could claim compensation?

Mr. Mahindra.—If the reconstructed company and the managing agents do not come to terms as regards management, compensation as valued by a firm of Chartered Accountants is provided for.

President.—The scale is left to be determined by a party to whom the matter is referred by the Company and the managing agents.

Mr. Mahindra.—That is only one case.

President.—Even in that case, there is no arrangement of the kind that you have in Bombay and Ahmedabad where the compensation is not left to be determined by a thrid party to whom the matter is referred, but the scale itself is provided in the agreement. Generally it is 5 times the average of the earnings of the past 5 or 10 years as the case may be.

Mr. Mahindra.—In this one case, on sale or transfer, the managing agents might make it a condition that they should retain the managing agency of

the new business. If the purchaser refuses, then compensation as considered fair and reasonable by a European firm of Chartered Accountants will be paid to the managing agents.

President.—That is a very exceptional case?

Mr. Mahindra.—Only one case.

President.—With regard to assignment, I find in Bombay the managing agent may assign his interest, that is to say, his commission or part of his commission?

Mr. Mahindra.—You mean mortgage?

President.—He can transfer it to anybody else.

Mr. Mahindra.—You mean the control of the company?

President.—His interest, commission or the remuneration part of it?

Mr. Mahindra.—This is the first time that I hear of it.

President.—It does not occur here?

Mr. Mahindra.—No.

President.—The business is not transferred. The business is done by the managing agent. Only his interest in commission to the extent of say 50 per cent. is transferred.

Mr. Rahimtoola.—Please refer to page 14 (*f*) of your note.

President.—Sometimes it is not a question of mortgage. You simply give it to somebody else. The commission is say Rs. 10,000 a year. The managing agent gives 50 per cent. of that to another man.

Mr. Mahindra.—It may be a case of personal arrangement. I am a managing agent. I am in difficulties. My remuneration as managing agent is say Rs. 10,000 per year. That is my fixed income. I may go to a Bank and say "Will you give me a loan on the strength of that?".

President.—There is no case in which the agreement is assigned?

Mr. Mahindra.—The managing agency agreements mentioned by me usually provide that the managing agents may be the present firm or their successors or their assigns.

President.—Does the phrase 'or their assigns' occur?

Mr. Mahindra.—In most of the agreements.

President.—But generally successors?

Mr. Mahindra.—Yes.

President.—Supposing the managing agency is vested in my firm and its successors and assigns, in that case, can my firm assign or transfer the business to somebody else?

Mr. Mahindra.—I think that the question should be referred to a lawyer. I know of no case where a transfer has been made.

President.—I am curious to know the legal effect of it. If a managing agent is so inclined, he can do it?

Mr. Mahindra.—As far as my knowledge goes, the word 'assign' is interpreted to mean I can transfer my managing agency for a consideration, but I cannot assign the remuneration which I receive as a managing agent.

President.—The Company has to put up with the assignees?

Mr. Mahindra.—It has got to put up with them in accordance with the agreement, but I know of no case.

President.—In Ahmedabad the agreements generally provide for assignment both of agreement and interest.

Mr. Mahindra.—I don't think the practice is at all prevalent in Calcutta.

President.—I suppose a managing agent often has a number of different companies under his management engaged to carry on the same kind of

business. Opinion, I suppose, in business circles is not against an arrangement of that kind; on the other hand it is in favour of it?

Mr. Mahindra.—Yes.

President.—That is to say, when four or five companies are engaged in the same business and under certain conditions their interest may be competitive, then the fact that one managing agent is in charge of all these different companies, is that supposed in any way to harm the interests of the shareholders of the different companies?

Mr. Mahindra.—I don't think it happens in practice—what you call competitive interests may apply to firms of retail dealers, sellers of machinery, sellers of hardware and so on but they have no effective application in case of manufacturing or extractive concerns.

President.—At a time of very acute depression if you find that there is not enough market for the product of your industry, and you have 12 companies under the same management all trying to get what business they can, then I suppose even in the case of manufacturing concerns a state of competition may arise.

Mr. Mahindra.—It is all the better when they are under the same House.

President.—I notice in one of the agreements that your firm has sent us that there is a clause to the effect that the firm is not to engage in any business directly or indirectly of the kind carried on by the Company concerned. What is the point of it?

Mr. Mahindra.—The Hoogly Engineering and Docking Company were originally shipbuilders prior to its flotation it was a sort of private concern belonging to two or three individuals. They found themselves in difficulties. An appeal was made to our firm to come to their rescue. Consideration was given for the help and in return we said "we will manage the company provided you agree to give us a fixed tenure of office for 10 years". Then the other party turned round and said "You must not take any other shipbuilding work" and we agreed.

Mr. Boag.—This agreement is dated 1921?

Mr. Mahindra.—That is the revised agreement. This company lost most of its capital and was then re-constructed in 1921. The original capital was reduced and further capital raised by issue of debentures and so on.

President.—I believe there is a similar provision in the Tata Sons agreement with the Tata Iron and Steel Company.

Mr. Mahindra.—This provision used to be very much favoured in the old agency agreements. It is still a favourite clause in the case of selling agency agreements.

President.—Where the competition that may arise is more immediate and direct?

Mr. Mahindra.—Yes. This does not arise in the case of collieries; this does not arise in the case of jute companies, because concentrated control or rather an amalgamated control is for the benefit of these concerns. Whatever orders are secured, if the products are of a similar nature, these are pooled according to the direction of the managing agents. In the case of collieries, of course, each colliery produces different class of coal and get their orders for different seams. But take the case of a cement company, the one with which we are concerned. Before we actually started working we spent four years in investigating and prospecting in association with a very well known firm in England. Our British friends were apprehensive that after the gathering of knowledge by us we might turn them down and take up another concern. So to preliminary investigation they made it a condition that if this company was at all promoted in India and if we agreed to take over the managing agency of this concern we will not take over the managing agency of any other cement company.

President.—If a managing agent has under his management several companies doing the same business, theoretically the case would be the same as that of an amalgamation or a combine and as a result your overheads must necessarily come down?

Mr. Mahindra.—Yes. I should rather go further and use the word rationalised control.

President.—I should like to refer to the general point that you raise at the end of your note as regards the difference between the results of the Calcutta system and the results of the Bombay system. Rightly or wrongly there is a great deal of complaint on the Bombay side regarding the working of the system. As a Tariff Board we have been concerned with enquiries into industries on the Calcutta side for quite a number of years now but we never had any complaint regarding the managing agency system. There is that obvious difference and I was rather interested to notice the line along which you try to explain, if possible, the difference between the two cases. One point that you are raising is that it may have a good deal to do with the inherent difference between the jute industry and the cotton industry.

Mr. Mahindra.—I preface my remarks on this point by saying that I have no knowledge of the cotton industry.

President.—You have a good deal of knowledge of the jute industry?

Mr. Mahindra.—Not practical knowledge.

President.—I don't suppose we want any practical knowledge in order to arrive at a tentative conclusion on this point. The point really is that it is likely that at a time of extreme depression an industry which is exposed not merely to severe internal competition but also to severe external competition has a much harder time of it than an industry which is not exposed to severe external competition, and therefore the results are likely to be much more disastrous to the shareholders of the one than in the other case, and when shareholders do not get the return that they expect, they put the blame on the management. I was wondering whether taking the situation as a whole, there is any force in this point which I want to put to you. You were talking of rationalised control a little while ago. In one sense the managing agency system does provide for rationalised control by centralising many things, by economising in many things. When you have that system and the companies included under your management are all companies engaged in the same kind of business and there happens to be a period of difficulty for this particular industry then financial risk and so on demands that the managing agents put all their eggs in one basket! Bengal has a variety of business unlike Bombay and therefore the managing agent spreads his risk in a way in which the managing agent on the Bombay side cannot in the textile industry, and that might account for the special difficulties of the Bombay managing agent compared with the difficulties of the managing agent here.

Mr. Mahindra.—I would not like to contradict you on this point because, as I told you, I do not know anything about the Bombay industry or the managing agency system there. You say that there may be something wrong with the managing agency methods in Bombay because there is no other industry except textile available for the managing agent to spread his risks over. Will I be correct in putting it this way: that possibly the managing agent in Bombay has bitten off more than he can chew? It is not because of faulty management that he is in difficulties but because he has been too greedy.

President.—There are several managing agency houses on the Calcutta side which manage more than a dozen companies. No managing agent on the Bombay side manages a dozen textile companies. Would you consider that he was overdoing it?

Mr. Mahindra.—If in your argument the assumption is that the managing agent spreads his risk over different companies engaged in different kinds

of industry are you not also assuming that he utilises the surplus profit of one company to aid the weaker company?

President.—Yes.

Mr. Mahindra.—There is not one case in which we have allowed one company under our management to lend finance to another company. As far as finances are concerned each company is quite independent and separate.

President.—When a company asks for a loan from a bank does the managing agent provide any security.

Mr. Mahindra.—He guarantees the loan.

President.—He takes the risk?

Mr. Mahindra.—Yes.

President.—As far as that risk is concerned, is not the managing agent in a better position if he spreads his risk over a number of industries?

Mr. Mahindra.—I am not so sure about that. As a managing agent I know my financial resources; I know the industries I am controlling and I can foresee the difficulties of each industry, the maximum amount of risk I am taking in floating a particular concern and sponsoring a particular industry. For instance, say the total capital of the companies under the control of Messrs. Martin and Company is in the region of five crores of rupees. The financial department of Messrs. Martin and Company calculates from period to period the amount of finance required by all these companies and if we find that we have gone right up to the hilt we don't look at another proposition unless we are relieved of the responsibility of one or more of the present companies.

President.—Assuming prudent financial management of that kind in both cases would you still refuse to agree that a managing agent who has opportunities of taking up companies engaged in different lines of industrial work is in a better position?

Mr. Mahindra.—That has nothing to do with actual management.

President.—That is precisely the point. I am trying to justify your position that if things are difficult in Bombay that is not due to the system as such but to the particular conditions under which the system operates in Bombay.

Mr. Mahindra.—I agree with you that possibly the risks in Bombay are greater for the managing agent and accordingly managing agency firms in Bombay ought to have foreseen their risks and not to have spread their nets widely during prosperous times.

President.—The next general point I want to raise is, what precisely are the distinct services which the managing agent can perform which the managing director cannot or does not? You have paid a great deal of attention in your note to the question of the managing agent in his capacity as entrepreneur, the pioneering and floatation and that part of it. A managing director seldom performs that in the sense those services can be rendered under the managing agency system. That is one distinctive contribution of the managing agency system?

Mr. Mahindra.—Yes.

President.—Another is that he provides finance, and there is a third to which I don't think you make any reference. After all in order to determine the distinct contributions rendered by the managing agency system in India you have to look at the thing historically. This system started on the Calcutta side as a legacy from the East India Company.

Mr. Mahindra.—I was rather intrigued when during my last visit to Europe, I came across a gentleman from Scotland: he knew Calcutta business and he told me that it was really a contribution by Scotch merchants who came to Calcutta in the early part of the 19th century, and he also told me that this system was still in vogue in the remoter parts of Scotland: there this system still prevails.

President.—One reason why the managing agency system has been in great vogue in India is that when you have to provide for an industry in India a continuous and regular supply of imported labour then it is much easier for the industry to secure its supply when it proceeds through a managing agency house which has established its reputation and commands a certain amount of confidence amongst people of the kind who are being recruited—not only for recruitment of labour but for the maintenance of the higher staff if the industry acts through a managing agency house of sufficient standing: it would help.

Mr. Mahindra.—That is really a historical matter.

President.—Supposing for example to-day you want to organise an industrial concern somewhat of a new character and you want to import technical labour from outside?

Mr. Mahindra.—Not want to but we may have to.

President.—In that case are you not in a better position if you are to proceed through a firm like yours which have a reputation because the man who offers his services feels that he is going to have the benefit of the standard of prudent management, fair management and so on associated with Messrs. Martin and Company?

Mr. Mahindra.—Yes.

President.—Suppose we take these three distinctive services performed by a managing agent, what I would like to know is, is there any special reason why in the conditions of the cotton textile industry the managing agent should be considered still essential? It is an established industry, there is no more pioneering and so on; most of the technical and supervisory staff that you want now can be recruited, and excepting finance there is no really distinctive service which the managing agency firm can perform in regard to the cotton textile industry.

Mr. Mahindra.—Of the two "ills", if such are they, I would choose the lesser one, the managing agency system. In my opinion the managing agency system is a better system than the system of company management by managing directors.

President.—Not merely for the sake of providing finance, but for the sake of providing good management.

Mr. Mahindra.—Yes and for the sake of rationalised control, for the sake of financing of industries for a country like India and for the purpose of encouraging capital to come out.

President.—Let me put the issue in a somewhat different form. It is probably with a good Managing Agency House, I can get a higher standard of efficiency in my management, but even with the Managing Director, I can get a tolerably good management, that is to say as far as the Management is concerned, the Managing Agency system is not indispensable.

Mr. Mahindra.—No.

President.—If you don't exactly get the same kind of article, you can get a substitute which is not much inferior.

Mr. Mahindra.—Under present conditions, industrial, financial and psychological, so far as investments are concerned, this system is by far superior to the system of Company management by individuals.

President.—Could you say in regard to finance the Managing Director is not merely not a substitute, but he simply cannot provide service under the present conditions which the Managing Agent could under normal conditions.

Mr. Mahindra.—If you look at the immediate future, the future of every industry in the world is towards amalgamations, mergers and therefore there is no place for the Managing Director.

President.—That tendency has been overdone.

Mr. Mahindra.—In what industry?

President.—There is a slight reaction, isn't there?

Mr. Mahindra.—I do not know which industry you are referring to.

President.—What I am thinking of is—I do not want to mention names—when you are passing through a time of very severe depression, amalgamations are sometimes likely to be rather a drag. Under normal conditions I can imagine amalgamations making for economies.

Mr. Mahindra.—I didn't quite make myself clear. My point is this: the future of industry in the capitalistic system is towards bigger and bigger units. If an industry wants to survive, it must join with other groups in the same line. That holds true of almost every industry whether in India or abroad, assumption being that the capitalistic organisation of society continues.

President.—As a matter of fact I have been thinking of the amalgamation schemes which have been tried in the Cotton Textile industry. They have not been great successes.

Mr. Mahindra.—They have not been tried. Attempts have been made to amalgamate, to get into a merger, but those attempts have failed, because of inherent difficulties. I see some reasons given here and another set of reasons given in the daily press.

President.—I am not thinking of Bombay. I am thinking of Lancashire.

Mr. Mahindra.—I am afraid I have no knowledge of Lancashire.

President.—I understand your point of view is that if it is assumed that the trend in capitalistic enterprises is towards amalgamations and combines, then the Managing Agency system is a sort of halfway house.

Mr. Mahindra.—It is not exactly a halfway house. May I make myself clear? You refer to Lancashire. May I refer to the German Steel industry. I have recently been to Germany and I have had occasions to look into the organisations of various steel groups. It is not amalgamation; it is not a merger but it is what may be called co-ordinated control, both in respect of production and of sales.

President.—Is it administratively and financially a single unit?

Mr. Mahindra.—It is not a single unit.

President.—The industry works on separate units.

Mr. Mahindra.—It is co-ordinated control in respect of finances, in respect of sales and in respect of production.

President.—It is simply a pooling arrangement with regard to management and ultimate control.

Mr. Mahindra.—Rationalisation of management.

President.—Rationalisation is a very difficult word to understand.

Mr. Mahindra.—I can't find any other word to explain what I mean. A proposition was put up to the German Steel industries for supplying—when I was there they had the case before them—600,000 tons of rails to the Government of Bulgaria and this particular instance was brought to my notice. One single steel unit in Germany cannot cope with an order of that magnitude and they didn't want the Bulgarian Government to put one firm against the other whether in Germany or Belgium. These were the two countries chiefly concerned. The German Steel industry have got two different types of co-ordinated control at the top. One is the economic section and the other is the sales section. The economic section got into touch with the Belgian Government and came to terms and said that as regards this particular order " we will divide it with Belgium on a quota basis ". Then the Sales Department came in, worked out the costs and offered to the Bulgarian Government their cost figures and said " we will supply you on these terms, the terms being so and so, under the guarantee both of the German Government and of the Belgian Government ". That is a broad instance of control—co-ordinated control which is both possible and feasible in similar matters here.

President.—I am interested to hear your views on that question, but for the moment I am up against the practical aspects of the Cotton Textile Industry. The more I investigate the Cotton Textile Industry in India, the less I am convinced of the benefits of amalgamation and combine activities on a large scale. Conditions may be very different in this country. What the differences are, I don't quite know. If you take a unit of 700 looms which is rather a small proposition working under a Managing Agent who has no other interest, devotes his whole time to it, from the point of view of costs he seems to get not merely better results but distinctly better results, so that while in theory you may be perfectly right—if one is going to look at the question in connection with actual conditions prevailing in this country, I personally would be rather doubtful about the advantages of going ahead with large schemes of amalgamation. I don't want to pursue the point.

Mr. Mahindra.—I would not like to make any comments on the Bombay Textile Industry.

President.—I understand your point of view is this: not merely in regard to finance, in regard to good management, the Managing Agency system is a better proposition than the system of Managing Director.

Mr. Mahindra.—I think so, under the present conditions of industries in India.

President.—If it happens that your Managing Agency is in the hands of people who do not represent very high standards of efficiency, then the Managing Agency system can work exceedingly badly, can't it?

Mr. Mahindra.—You are just thinking of possibilities, it can work very badly like any other system.

President.—What I am trying to get at is if you had a system of Managing Director and if you compare it with the Managing Agency system, if you assume reasonably honest and efficient personnel, in both cases the Managing Agency system would give you probably much better results.

Mr. Mahindra.—That is my contention.

President.—On the other hand if your personnel does not represent reasonable standard of efficiency and honesty, then the evils of the Managing Agency system would be much more serious than the evils of the Directorship system.

Mr. Mahindra.—I don't agree, on two grounds. One is a bad Managing Agent is a rarer specimen than a bad Managing Director. I have tried to put it in different words somewhere at the end of this memorandum—that individual dishonesty is more rampant than group dishonesty.

President.—I noticed that statement of yours which, for a moment, I do not accept. I think the groups are much worse than individuals in this matter.

Mr. Mahindra.—It is a matter of opinion. If there is to be a comparison, I would like to know the criterion by which you will judge.

President.—It is equally difficult to know by what criterion you have judged the proposition. That is not the most important point there. The most important point is this: if you have a Managing Director, assuming he is falling short of a reasonable standard of efficiency, there is at any rate this set off that you can provide that the man is continually under control. After all both in administration and in business the one way in which you can keep the executive up to the mark is to provide a system of reasonable control, and since the Managing Directorship provides more effective control than the Managing Agency system, that again is a proposition which you would not accept.

Mr. Mahindra.—No.

President.—What I mean is this: after all the duties and obligations of the Managing Agent are definitely provided in the agreement. He is subject to the control and supervision of the Board of Directors. Therefore as far as these duties which are definitely allotted to him are concerned, he is

subject to the ultimate control exercised by the Directors. He is his own master unless of course a crisis develops and the ultimate control of the Directors is exercised. But the Managing Director is a man who works continuously under control. I mean there are no definite duties and obligations assigned to him under his contract with the Company.

Mr. Mahindra.—It must be so, for all practical purposes.

President.—Not in the detail in which they are stated in your agreement.

Mr. Mahindra.—You are assuming that the Board of Directors of a Company managed by Managing Director is more active and efficient than the Board of Directors of a Company worked by Managing Agents. Is not that the assumption?

President.—He is more likely to exercise the control vested in him than in the other case, because the Managing Agent has worked for a period of 20 years, he has done a certain amount of service, the Company has been developed under him, the Directors have come to repose a certain amount of confidence and when the Managing Agency falls into inefficient hands, that confidence continues, although the present personnel does not justify it. It is then that the system begins to fail.

Mr. Mahindra.—Assume a similar case, similar experience at the disposal of the Managing Director which the Managing Agents have. If the Managing Director after 20 years' tenure of office continues in office, he retains the confidence of the Board to the same extent as the Managing Agent does.

President.—In connection with that point I have given you what I regard as the normal features of the Bombay Managing Agency agreements. If it is a period of 40 years during which period the Managing Agent is absolutely safe. There is no provision to the effect that if during that period he is inefficient or does not fulfil his obligations, he can be removed by anybody. There is absolute certainty for a period of 40 years. Would you consider that satisfactory?

Mr. Mahindra.—May I point out that all these matters of detail should be decided and judged according to the conditions of each industry and each concern.

President.—Take an industry that you know best here. Supposing you had an agreement for a period of 40 years?

Mr. Mahindra.—I would call myself lucky if the shareholders would agree to that.

President.—Would you consider that as a system satisfactory?

Mr. Mahindra.—It is not a question of the system being satisfactory. I am responsible for floating a particular concern on the market. I am prepared to back it with my funds. I also place before the public the terms which I want from the Joint Stock Company. If the public doesn't like the terms, they will not subscribe.

President.—I am sorry I did not put my point clear. For the moment forget that you are connected with the Managing Agency House. You have knowledge of industrial conditions and for the moment regard yourself as a student of industrial history. Supposing you find that in an important industrial concern there is an agreement under which the Managing Agent will remain in office for a period of 40 years and during which period will not be removed, speaking simply as a student of industrial conditions in Calcutta, would you consider that as a satisfactory arrangement?

Mr. Mahindra.—May I counter that by saying that if I generalise without thinking and call that unsatisfactory, I would also call unsatisfactory the arrangement of the statutory services to which one of your members belongs. Is it satisfactory that he should be engaged for life irrespective of efficiency and irrespective of the circumstances under which he was employed?

Mr. Boag.—Not for life.

President.—I am not in the least interested in the efficiency of public services.

Mr. Mahindra.—My apologies to Mr. Boag for a personal reference. May I point out, however, the parallel between the two cases? You are asking me to give an opinion whether the system of engaging a particular man or firm for 40 years is satisfactory or not. It is equivalent to your asking me whether the statutory guarantees given to the Indian Civil Service are justified or not.

President.—It is a question whether it makes efficient conditions of work. We are not interested in the Civil Service for the time being. I am confining the question to industries. Since you are conversant with industrial conditions in Calcutta, if I put the question in that definite form, you would rather not answer it.

Mr. Mahindra.—I will answer it this way. If the risks I have undertaken, that is if my financial stake in the Company are equivalent to 50 per cent. of the capital, I would like to have control for as long a period as I keep the money there. In some concerns it is definitely laid down that the Managing Agents can continue in office or they can claim a renewal of their agreement only if they have so much money in the concern itself.

President.—It is a safe answer. I am not meaning any disparagement. It does not exactly help me.

Mr. Mahindra.—Generally, I will agree with you that a forty years' agreement anywhere is not satisfactory.

President.—What do you think of a permanent and non-changeable agreement?

Mr. Mahindra.—Worse. But it again depends, as I pointed out, on the conditions in which the particular concerns are floated and are conducted.

President.—Whatever may be the amount of money that you put into the pioneering stages of the industry, whatever may be your present stage in the business, do you think that the Managing Agent's service is worth so much that he should be given a permanent and non-changeable tenure.

Mr. Mahindra.—Provided more than half of the capital of the Company continues to belong to me, I must retain control permanently and unchangingly over that concern.

President.—If you have more than 50 per cent., you don't want a permanent agreement. You have sufficient control. Why do you want an agreement?

Mr. Mahindra.—I want control.

President.—Supposing, for example, for any reason you are going to part with the capital to somebody else, then this agreement stands in the way of the shareholders getting rid of him. He has given up his stake in the business, but the agreement provides for his eternal continuance.

Mr. Mahindra.—You can qualify that perpetuity of tenure by saying that in the case of transfers it should be subject to the approval of the shareholders by special resolutions or extraordinary resolutions, as long as the matter is properly ventilated and not bolstered by agitation.

President.—On this question of commission calculated on profits I do not know whether you would care to express any opinion. As you know, the Bombay Shareholders' Association have made a strong point that it is unfair to the Company that the commission to the Managing Agents should be calculated on profit *plus* depreciation. What is your view of that?

Mr. Mahindra.—I think I have made myself quite clear in my memorandum.

President.—On the ground that the depreciation is the first charge.

Mr. Mahindra.—I agree that the depreciation should be generally considered as the first charge on the costs of the company, but as to whether the Managing Agents' remuneration should be based on gross profit is a different issue.

President.—This is simply a way of calculating the remuneration.

Mr. Mahindra.—If you will allow me, I shall tell you what I have done. Without any bias I took three concerns under the managing agency of my firm. In one case, it is provided that the managing agents will get 10 per cent. on nett annual profits; in another case it is provided that they will get 1 per cent. on sales and in another case it is provided that they will get 10 per cent. on profits before providing for depreciation. I have taken 5 sample years, 3 prior to depression and two during the depression period, and calculated the average remuneration of the managing agents during those five years in terms of percentage on capital. In the first case, it is 1·38; in the second case 1·36 and in the third case 1·1.

President.—That is interesting. While admitting that depreciation is the first charge as you have just now pointed out, the fact that the remuneration of the managing agent is calculated on profit *plus* depreciation does not necessarily act against that theory, does it?

Mr. Mahindra.—No.

President.—It does not militate against it?

Mr. Mahindra.—No.

President.—Whether you say 10 per cent. on profit *plus* depreciation or 15 per cent. on profit, it comes to the same thing?

Mr. Mahindra.—Yes.

President.—It is simply a way of putting it.

Mr. Mahindra.—As a matter of fact I have mentioned in my memorandum that there are cases of public utility companies where it is provided...........

President.—I understand your point.

Mr. Mahindra.—There, if managing agents were to be remunerated on the same scale as in the case of other companies, the percentage on nett profits must be considerably higher.

President.—But there is one point which I want to raise in connection with that. Supposing the system was that the commission should be based on nett profit only, then it is to the interests of the management to see that the nett profit in the sense of surplus available for distribution is as much as possible because on that the commission is based. Where for the sake of the future health of the industry, it is necessary to set aside substantial depreciation, a system of that kind would induce the managing agent to reduce the amount to be set aside as depreciation because he would like to provide as much surplus as possible for distribution.

Mr. Mahindra.—I assume that managing agents take a long sighted view of all industries under their control.

President.—Supposing they take an immediate view. You must not assume very high standards. You must assume ordinary standards.

Mr. Mahindra.—They might do so; they could do so.

President.—There is just a danger.

Mr. Mahindra.—There is just a possibility, but I don't think that they will do so in Calcutta. I might tell you from my experience of attending general shareholders meetings of many concerns for the last 5 or 6 years, invariably a question was asked "What is the provision for depreciation"? It is usually put down in the report. They don't care to calculate it. They want to know "Why have you given so much"? That question occurred only last week.

President.—There is just one other point which I want to raise, if I may, and that is the question of commission charged by managing agents for services rendered other than as managing agents. Your point is that while it makes for economy if the managing agent purchases the supplies, organises the sales and renders other services for the company, all these things must be done at rates which are not higher than the current market rates.

Mr. Mahindra.—Yes.

President.—Supposing I purchase supplies of raw materials for my Company and get my Company quotations which are not higher than the current market rates but I get a commission from the person from whom I draw my supplies, what is your opinion? Should that commission go to the Company or am I entitled to retain it myself?

Mr. Mahindra.—You are putting a specific case to me where as a managing agent I buy certain materials for a concern under my control—I am trying to understand the problem—from outside people, supply them to the Company and the discount given by people from whom I bought the materials, being a trade discount, I keep it to myself. You ask me whether I am justified or not. I admit that cases like that do happen and I don't see anything objectionable in it as long as I, as a managing agent, maintain a centralised purchasing department which has to be paid for.

President.—It has to be paid for by the managing agent?

Mr. Mahindra.—Yes. The managing agent must make some profit somewhere for the expenses of the personnel. If he was not to retain that trade discount, how is he going to cover those expenses?

President.—Does your office allowance cover any part of that expenditure?

Mr. Mahindra.—No.

President.—None of it?

Mr. Mahindra.—It will interest you, Mr. Chairman, to know what I did this morning. I thought that perhaps you would like to know what this office allowance was intended to cover. I made a statement in my memorandum that office allowance was a recovery by the managing agents of their estimated out of pocket expenditure on behalf of the Company. I took one company and I tried to distribute the expenses—the actual out-of-pocket expenses—of the managing agents on that Company. The allowance from that Company is Rs. 1,000 a month. As far as I could calculate hurriedly this morning, the actual out of pocket expenditure on that Company by the managing agents is Rs. 847·5. I can substantiate that statement by vouchers, by wages bill, by actual expenditure on the Company itself. It does not take into account any suprevision by the managing agents or by the senior staff. It is actual out of pocket expense—money going out of the pocket of managing agents—on behalf of that company.

President.—When you say on behalf of that company, does that mean upon people employed at the office exclusively for the purpose of the Company?

Mr. Mahindra.—Not exclusively. I will give you the details, if you care to listen to them. This Company happens to be a railway company. We have 8 railway companies under our control. There is a man appointed as Secretary in charge of railways; that is, he does the administrative part of the work in the managing agents' office. He is paid by the managing agents. His salary I have distributed according to the capital of the railway companies *pro rata*. His share goes there. There is a senior accountant in charge of the accounts of railways not paid for by the Companies but paid by the managing agents. In addition to the railways, he has another group of companies of similar nature under his control. So, only half his salary has been divided amongst these eight railway companies. There are two clerks in the Secretary's office whose work is confined to the railway companies. Their salaries have also been distributed over these eight companies. There is the Share Transfer Department which is a consolidated department for all the companies. I have taken a share of that service which is paid for by managing agents. There is the mailing department; similarly there are enquiries, despatch and cash departments, etc. A portion of that expenditure has been added. There is the office accommodation provided for this Company in the office for which the managing agents pay rent, taxes, etc. I have not taken into account any charge for office furniture. I have only taken the actual expenditure on electric current, accommodation, stationery, etc. All these taken together *pro rata* come to Rs. 847·5.

President.—Then your office allowance is a contribution made by a constituent company towards the expenses of the centralised staff in the managing agents' office.

Mr. Mahindra.—Yes. When a company is floated we estimate that we have to spend so much on its administration by managing agents. Our remuneration is based on that estimate. It may be a few rupees this way or a few rupees that way.

President.—If your office allowance does not cover the expenses that you have to incur in respect of sales whatever discount you receive must be regarded in the nature of remuneration in respect of services that you perform in effecting sales?

Mr. Mahindra.—Yes.

President.—Unless you happen to receive in the way of discount an amount which leaves you with a much larger surplus over your actual expenses?

Mr. Mahindra.—That is a question of fact. As regards office allowance, I will give you another instance as a matter of illustration and not as a matter of pride. A company was in great difficulties during the last two or three years. We decided to curtail the activities of the Company. The managing agents were providing for this Company clerical staff under the agreement. It was decided to curtail production and cut down all unnecessary expenditure. Therefore the managing agents' share of expenditure on the staff for which they were being paid by the Company was also reduced, because they did not require so much staff. As a matter of honesty, we also cut down the office allowance by half voluntarily.

President.—That is very interesting. Now as regards this question of insurance about which we have heard a great deal on the other side of India, the question of rebates does not apparently arise?

Mr. Mahindra.—As far as my knowledge goes, I have consulted the agreements; I have consulted the joint pooling arrangements between various Insurance Companies and the clauses which govern the grant of rebates.

President.—If for the moment you can visualise a situation where rebates do arise in the insurance market, what do you think is the right view to take in regard to rebates? Does the Company or the managing agent get a better right?

Mr. Mahindra.—Let me give you concrete figures. The Companies under the control of my firm have an aggregate capital of Rs. 6 crores. The insurance commission or rebate received by the managing agents for insuring these various concerns under our control has varied during the last five years from a maximum of Rs. 21,000 to a minimum of Rs. 16,000. That is the total amount received by us. In return for that we maintain a special insurance officer. His salary is paid by us and it is his duty to go round and get the best terms possible as far as the tariff regulations of those companies allow. His salary is Rs. 650 a month. I don't say that he is solely doing that kind of work. He also does motor car insurance for individuals. There are 100 motor cars in the office and he looks after the motor car department.

President.—As far as your house is concerned, rebates are retained by managing agents definitely as a provision against the expenses incurred on account of the insurance staff?

Mr. Mahindra.—We have no choice. We set up this insurance business because we can get rebates and we cannot pass on rebates to the Companies.

President.—You mean under the rules?

Mr. Mahindra.—Yes.

President.—You cannot pass the commission and you cannot pass the rebate?

Mr. Mahindra.—We cannot.

President.—The rebates are on a different footing from commissions, are they not?

Mr. Mahindra.—There are two reasons. The first one is the honour agreement between Insurance Companies. The other is that we cannot become agents where we can pass on the commission received by us.

President.—Does your commission include the rebate?

Mr. Mahindra.—Possibly I am misunderstanding you. The rebate which we get from the Insurance Companies under the tariff laws is passed on to the concern.

President.—Supposing you get a rebate not under the tariff?

Mr. Mahindra.—We get only agency commission.

President.—That is a different matter. This particular rule that you are referring to is about the commission that you draw from the Insurance Company for services that you render?

Mr. Mahindra.—Yes.

President.—Supposing there is a scramble in the insurance market of a kind which enables you to get rebates in addition to the commissions which are not recognised in the regular insurance tariff, if it is possible for you to visualise a situation in which rebates of that kind occur in the insurance market and the rules do not definitely stand in the way of transferring the rebates—the only objection at present is that the rules stand in the way?

Mr. Mahindra.—Yes.

President.—Supposing the expenditure that you incur on your insurance department does not amount to the total receipts that you get and there is no rule prohibiting you from transferring these rebates to your Company, it would be perfectly legitimate for the managing agent to give the rebate to the Company?

Mr. Mahindra.—I think so. I think as a matter of practice the Companies are getting the benefit of such rebates, if any.

President.—We have been told that in one or two cases where although the rule seems to prohibit it, commissions are transferred by managing agents. How that is done, I do not know. Our attention was drawn to this rule in Bombay as you have drawn our attention to it but apparently there are some very well known and reputed agents who do transfer their commissions.

Mr. Mahindra.—It is possible. I am on the staff of Messrs. Martin and Company. I have a motor car. I insure it through the Company for which they hold the sub-agency. Supposing I own only one motor car but as all the motor cars are insured under more than two motor car rules, we get a certain rebate. That rebate is passed on to individual owners.

President.—It might happen that way.

Mr. Mahindra.—In our case the only thing which the managing agents retain is the sub-agency commission. It may be that our insurance department is not alert in getting all the rebates for the Company, but whatever such rebates are obtained belong to the companies. Prior to 1920 we had a system of independent insurance.

President.—What is that for?

Mr. Mahindra.—We were not agents for any company and we insured our various concerns with different people. Then the insurance people in Calcutta formed a combine and they pointed out to us the benefits of taking up a sub-agency. As a matter of fact, our senior partner was the Chairman of a Bombay Company—New India.

President.—It is really a competition of consumers against sellers. There is just one other point. It is I think a healthy thing, is it not, for the managing agent to have substantive stake in the company? If, for example, the managing agent holds, say, 60 per cent. of the capital of the company, it is a good thing for the company because it ensures

identity of interest between the managing agent and the company; because whatever happens to the company is a thing which affects him personally. You combine the interest of the two together. On the other hand, if he holds 10 per cent. of the capital there might conceivably be a sort of divergence of interest between the managing agent and the company. Of course if the managing agent has sufficient sense of responsibility it does not matter.

Mr. Mahindra.—I would like to put it in a different way: if as a managing agent I can bring an important concern to the point where I hold only 10 per cent. of the capital I will call myself a very successful managing agent.

President.—You are talking again with a distinctly Calcutta outlook. We start a company and the managing agent has at the outset about 50 per cent. of the capital: he has got an agreement for a period of 50 years: times are difficult for the industry and he begins to drop his shares until his holding is only a little more than 10 per cent. That is not healthy, is it?

Mr. Mahindra.—If you take the assumption for granted, it is not healthy.

President.—What is the normal position in Calcutta? Is it possible to make a statement at all? Does the managing agent hold 40 to 50 per cent. of capital in most companies?

Mr. Mahindra.—No, because we pride ourselves on the fact that we are successful managing agents: people have faith in our companies and they are anxious to buy shares in our concerns.

President.—Shall we say 20 per cent.?

Mr. Mahindra.—I would not make any statement. It depends on the condition of the company. I float a company; the public may come to help the company with only 20 per cent. of the capital and the rest 80 per cent. remains which me to start with.

President.—Supposing you confine your attention to companies engaged in a particular industry like, say, jute? Is it possible for you to make any approximate statement?

Mr. Mahindra.—The jute industry is a established industry and very few mills have started recently and these have very big financial backing of their own. They don't expect any support from the public.

President.—Jute is on the same footing as cotton textiles, is it not?

Mr. Mahindra.—The future of the jute mill is assured but not so with cotton.

President.—With protection?

Mr. Mahindra.—If you wish to strangle the consumer............

President.—Supposing protection was granted with a definite idea of establishing the industry on an adequate basis—sufficiently high protection for a sufficiently long period—and the Government of this country and the Legislature bind themselves to the establishment of the industry on a sound footing?

Mr. Mahindra.—I will mortgage my property and buy cotton shares!

President.—The contrast that I want to put to you is this: if a managing agent holds 60 per cent. of the capital, the control is in his hands, but at the same time his interest is very closely identified with the company: on the other hand, if he holds only, say, 25 per cent. of the capital the rest of the shareholders have a better chance of controlling the company, but the management then does not have sufficient sense of identity with the company. If the two positions were put to you which would you vote for?

Mr. Mahindra.—You are putting me specific instances where I have to say yes or no, but I must decide my course of action by taking into consideration other subsidiary factors such as my reputation as a managing agent. I will not disassociate my interests from the interests of the company if I have any faith in myself as a managing agent. I think it is the Tariff

Board or the Banking Enquiry Committee which said that it is more than a matter of mere commercial interest to a managing agency firm.

President.—I understand your point of view, that is to say if the managing agent regards his connection with the company as something which has to be regarded not merely from the point of view of commercial interest but as a matter involving his reputation and things of that kind, then this question of stake falls to a subsidiary position.

Mr. Mahindra.—That is my point of view.

Mr. Rahimtoola.—I take it from the gist of the answers that you have given that you have not seen actual managing agency agreements or the articles of association prevalent in Bombay or Ahmedabad?

Mr. Mahindra.—No. I was asked by the Tariff Board to discuss chiefly the points raised by the Bombay Shareholders' Association, and my source of information is based on these two papers which they sent to me.

Mr. Rahimtoola.—Your source of information consists of the criticism which the Bombay Shareholders' Association have made with regard to the system which at present exists in Bombay and Ahmedabad. I was only asking you for general information whether you have seen any detailed agreement or articles of association of any textile mill in Bombay before coming before the Tariff Board, and compared that with agreements in Calcutta.

Mr. Mahindra.—I have not.

Mr. Rahimtoola.—I was asking you because I find from your statement which is very exhaustive and a very good one that there are things here which you have stated which either do not exist in Bombay or things which more or less cannot be compared. Take office allowance, for instance. You say it is not a war time creation. In Bombay office allowance and office expenses stand on quite different footings. The managing agents charge office allowance and office expenditure. By office allowance they mean allowance given in lump sum without any distribution in the shape of expenditure to the company whereas your office allowance is a distinct allowance given to you as a lump sum for distribution in the shape of expenses. It may be, as you say, that a small surplus may be left for the managing agents out of that lump sum but it is more or less purely for the expenditure of the company.

Mr. Mahindra.—It is really the recovery by managing agents of out of pocket expenses.

Mr. Rahimtoola.—How do you arrive at this figure? You tell us it ranges from Rs. 250 to Rs. 1,500?

Mr. Mahindra.—Usually in all the managing agency agreements it is put down exactly what services the managing agents have to render to the company in the shape of providing accommodation, pay for rates, rents, taxes, lights and fans and things of that kind. It is specifically put down.

Mr. Rahimtoola.—As far as the figures go they vary very considerably?

Mr. Mahindra.—It all depends on the administration required. We know the particular requirements of each company. If a company is dealing in a thing like, rubber for example, we know that we may require a special expert.

Mr. Rahimtoola.—Supposing it is found during the course of the year that the managing agents have to incur a loss is it not open to them to ask for a bigger grant than they are receiving or is it loss which they have got to recover from their commission?

Mr. Mahindra.—The hurried calculation which I prepared this morning and submitted to you is based on a *pro rata* distribution of expenses over various companies; there is no actual record kept of money spent on each separate company.

Mr. Rahimtoola.—I want to know simply as a general proposition, suppose a managing agent finds that he is making losses, then does he go to the directors and ask for a supplementary grant?

Mr. Mahindra.—There has been only one instance where we have gone to the directors to revise our scale of allowance. It was in the case of a company which we took over in 1907: it was a small concern. For 15 years we did not charge even a single pie either as remuneration or as office allowance. When the company was placed on a stable footing we went to the directors and made an application that we should be given a certain monthly allowance to cover our expenses and they agreed.

President.—You say on page 2 of your note that the general practice in case of companies under the control of Messrs. Martin and Company is to grant to the managing agents commission on profits. What is the usual rate?

Mr. Mahindra.—10 per cent. on profits provided dividends are 4 per cent. or over.

President.—Without a minimum.

Mr Mahindra.—Minimum of Rs. 2,400 a year in a few cases.

President.—In the rest there is no minimum?

Mr. Mahindra.—No. In some cases 10 per cent. on profits and in others 7½ per cent.

President.—The point I want to raise is this: This commission is given to the managing agents for services rendered to the company and the particular powers which they enjoy under which they render services are defined in the articles of association. I suppose broadly speaking those powers are purchasing and selling at remunerative prices so that it would be to the benefit of the company. If over and above this commission a selling agency commission is charged by the managing agents, would that be a fair remuneration?

Mr. Mahindra.—It would depend on the class of company you are dealing with. Usually, as I have mentioned, here managing agents are remunerated by commission on profits and not by commission on sales.

Mr. Rahimtoola.—You think on principle it does not matter?

Mr. Mahindra.—There is no objection to it on principle. We have an instance of a company where it is provided that the remuneration for the managing agents should be by commission on profit, commission on output, and commission on sales, all three together, and I can supply you full justification for this basis of remuneration.

President.—The point I was raising was, if the managing agents are to get over and above commission on profits, commission on sales, then the system is the same as the system prevalent in Bombay, namely that the goods are produced in the mill, they are handed over to the selling agent to be distributed; if there is default the selling agent makes good the amount. If the managing agent is interested in the shape of commission on sales, then if the outstandings go up, the interest being common the selling agent may not be called upon to pay up the arrears?

Mr. Mahindra.—That is dishonest practice.

President.—It may not be dishonest practice but it may lead to carelessness. I would call it negligence.

Mr. Mahindra.—It is dishonest if I keep money which does not belong to me.

President.—They are not able to recover the amount because the outstandings are so great.

Mr. Mahindra.—If I guarantee to the mills the full recovery of all defaults and then if I don't pay the company all the bad debts which I incur I am dishonest.

Mr. Rahimtoola.—It is delay in recovery?

Mr. Mahindra.—That is to say if I am keeping the money in my hands: it is dishonest. I am making use of that money which the company ought to have.

President.—Supposing the money has not come into your hands: the person has not paid you for the goods and you are not in a great hurry to collect payment, in that case would you apply the term dishonesty or is it sheer slackness?

Mr. Mahindra.—I will pay the company from my own pocket if these are the terms which are agreed upon. I will give you an instance. There is commission on output, sales and profit and the terms given to us as selling agents are 30 days credit. That is all our selling department which is in charge of the sales of that particular company give to the outside people 45 days credit so we are out of pocket by 15 days, but punctually at the end of every month all the bills of the company are paid by us. It is not merely a question of commercial practice: it is a question of satisfying the auditor that we do pay the company all outstandings regularly according to contract.

Mr. Rahimtoola.—On page 10 of your memorandum speaking about the control exercised by directors you have given us to understand that there are certain powers defined under the articles of association as distinct from the managing agent. If there is a clash between the two, even within the fixed period, then there is an arbitration.

Mr. Mahindra.—I read from page 10 "it shall be lawful for the Board to direct the managing agents not to act on the view held by them until the matter shall have been laid before the shareholders in a general meeting".

Mr. Rahimtoola.—It is more or less an arbitration basis?

Mr. Mahindra.—Yes, you may call it that.

President.—That means that there are certain powers which the directors have got by which they are able to control the managing agents to such an extent that they are even empowered to remove them within the fixed period. Therefore it all depends, as I said at the beginning, on the kind of directors the company has. I have seen a number of companies in Ahmedabad where the directors are composed of people who are interested in the managing agency commission and they more or less form the majority on the board, or some of them may be relations, and in that way though technically the powers may be there, by virtue of the directors not being independent of the managing agents it appears to me to remain in the form of a dead letter.

Mr. Mahindra.—I have somewhere dealt in my memorandum with this question of independent Directors. The words "independent Directors" should be more clearly defined. Do you mean to say they should not be relations and they should not be interested in the Managing Agents' commission?

Mr. Rahimtoola.—I think independent means that.

Mr. Mahindra.—If you are defining that in such a narrow sense, I should say the practice doesn't prevail in Calcutta.

Mr. Rahimtoola.—If it did prevail, it would not be a healthy system.

Mr. Mahindra.—No, unless of course the Company is a proprietary concern.

Mr. Rahimtoola.—When you are talking of your experience in Calcutta, I take it, it is the general practice in Calcutta as distinct from your firm of Managing Agents. You have used a number of times the general practice in Calcutta. Is it the general practice or is it only confined to your experience in Messrs. Martin and Company?

Mr. Mahindra.—That expression is limited to my experience in the firm of Messrs. Martin and Company.

THE BOMBAY SHAREHOLDERS ASSOCIATION, BOMBAY.

Evidence of Mr. S. R. DAVAR, Mr. A. D. SHROFF and Mr. J. J. KAPADIA, recorded at Bombay on Monday, the 22nd August, 1932.

President.—Professor Davar, you are the Vice-President of the Association?

Mr. Davar.—Yes.

President.—Mr. Shroff, you are a Member of the Managing Committee?

Mr. Shroff.—Yes.

President.—Mr. Kapadia, you are the Secretary?

Mr. Kapadia.—Yes.

President.—I should like, in the first instance, to get a general idea of the constituency that your Association represents. How many Members are there in your Association?

Mr. Davar.—We have at present about 630 Members.

President.—Is the membership of your Association confined to the City of Bombay?

Mr. Davar.—Mostly.

President.—Or do they generally represent the Presidency of Bombay? They are more representative of the Presidency?

Mr. Davar.—Yes.

President.—I take it the Textile industry being the most important industry here is the industry in which your members are primarily interested.

Mr. Davar.—Yes.

President.—Is it possible for you to give me an approximate idea of the extent to which your members are interested in the shares of Bombay mills? Approximate proportions, is it possible to give at all?

Mr. Davar.—It is rather difficult at present.

President.—I imagine that a large part of the capital is held by the Managing Agents themselves.

Mr. Davar.—Yes by Managing Agents or their friends and others, but as far as capital held by the public is concerned, I think our members command a fairly large proportion. If necessary we might collect details and supply you.

President.—It is not necessary to have any details.

Mr. Shroff.—I don't think it is quite correct to say that the bulk of the shares generally speaking are held by the Managing Agents. We would be inclined to dispute that.

President.—You won't accept that statement.

Mr. Shroff.—No.

President.—Taking the public shares in the Textile Mills, you represent a very large portion of public shares?

Mr. Shroff.—We may claim to represent as a matter of fact the investing community in Bombay if it is not a very exaggerated statement.

President.—I think it would rather help us to know more or less what is your representative character as far as public shares in Textile Mills are concerned, because it would help us to assess the importance of the evidence that you are going to give. That is the point I want to raise. If you make the statement that a large part of the public shares is represented in your Association, that is good enough for our purpose.

Mr. Shroff.—Yes.

President.—The first thing I should like to do is to ask you to give me an account of the general features of Managing Agency agreements in Bombay as compared with agreements in other parts of the country. What I mean is this: for the moment I am not raising the question of the precise way in which the system works. I will come to that later on. At present I want to get a fairly clear idea of the system as it works in Bombay as compared with the way in which it works in other parts of India. I am putting it to you very generally and I will be coming to details later. I have examined a considerable number of agreements executed by Mill Companies in Bombay, agreements in Ahmedabad and also a considerable number of representative agreements executed by the most important Managing Agency Houses in Calcutta.

Mr. Shroff.—With regard to jute?

President.—Talking generally, not necessarily with reference to the Cotton Textile industry, I want to understand the way in which the system of Managing Agency works. It is quite likely that the agreements I have seen in Bombay, Ahmedabad and Calcutta may not be entirely representative. But such ideas, as I have gathered on the subject, are ideas derived from the so-called representative agreements that I have seen and I will give you the points on which I have formed certain definite impressions. The first point is the period of the agreement, that is to say the tenure of the Managing Agents.

Mr. Shroff.—Yes.

President.—As far as Bombay is concerned the agreements that I have seen seem to suggest, barring exceptional cases, that the more common arrangement is to fix an initial period which is certain. It might be 20, 30 or 40 years. From the agreements that I have seen my own impression is that it is generally 30 to 40 years. After that the renewal of the agreement and the continuance of the Managing Agents will depend upon an extraordinary resolution of the Company passed by a very large majority.

Mr. Shroff.—Yes.

President.—And the majority that I have seen in Bombay agreements is generally four-fifths to five-sixths, is that correct?

Mr. Davar.—If it is an extraordinary resolution, it must be three-fourths. But this proportion is not adhered to in many cases.

President.—Any extraordinary resolution of a Company must be passed by three-fourths majority.

Mr. Davar.—Yes.

President.—But the impression that I got from a considerable number of agreements in Bombay was that it is something more than three-fourths.

Mr. Kapadia.—More than three-fourths.

President.—I have seen five-sixths. Does your impression tally with mine?

Mr. Kapadia.—There are some cases.

President.—What is the general position? I would like to know what your impression is.

Mr. Kapadia.—On that point I will tell you this. I have come across three sets of Managing Agency agreements in Bombay.

President.—Covering how many companies?

Mr. Kapadia.—50 to 60 Companies. The one set of agreements lay down that the Managing Agents would be appointed as Agents of the Company for a specified period of 30 or 40 years, that is to say until the Managing Agents have tendered their resignation. The period, 30 to 40 years, is absolutely a misnomer and there is no clause in the agreement providing for removal. That is to say to all intents and purposes such Managing Agency agreements although they lay down a specified time, they are permanent.

President.—May I understand your point? Even where an initial period say of 30 years is fixed, the real meaning of that is that for that period the Managing Agent himself cannot resign and he has got to keep his position.

Mr. Kapadia.—He is at liberty to resign.

President.—Not during that period?

Mr. Kapadia.—Even during that period. That is one of our complaints.

President.—I will tell you. I have not seen 50 or 60 agreements. I have seen only a dozen agreements and the commonest kind of provision that I find is where the initial period fixed is 30 years and the Agents continue thereafter until they resign of their own will which, I take it, means that for a period of 30 years they cannot resign. After 30 years they can resign. In many cases after 30 years not only can the man resign but the Company if it chooses can remove him provided a special majority of four-fifths or five-sixths is obtained.

Mr. Kapadia.—I began by saying that there are 3 sets of Managing Agency agreements. The one set was the kind which I just now mentioned, *viz.*, that the period was laid down, but a qualification was added, *viz.*, that the Managing Agent shall be entitled to continue until he resigned. So to all intents and purposes those agreements are of a permanent character. The other set was the kind stipulated by you and the third set is that you cannot remove the Managing Agent unless you had a certain majority.

President.—There is no initial period fixed at all.

Mr. Kapadia.—The period is fixed but there is a provision authorising the shareholders to remove the Managing Agent during that period but the conditions laid down are so stringent that it is physically impossible for the shareholders to remove the Managing Agent.

President.—To these points I am coming later on in the detailed discussion. I am trying to understand the general position.

Mr. Boag.—Could you give us an idea of the proportion represented by each of these 3 classes. You say you have seen 50 or 60 agreements. What is the proportion represented by each of these three classes?

Mr. Kapadia.—I shall have to work that out. Roughly speaking, I may tell you that the agreement of the first class, *viz.*, where the Managing Agents are entitled to work even after the period has expired is something like 30 to 40 per cent. The agreement of the second class where the Managing Agents can be removed after the expiry of the specified period is something like 20 to 25 per cent. and the agreement of the third class is where the Managing Agents can be removed during the pendency of the agreement is something like 15 to 20 per cent.

President.—There is a fairly even distribution.

Mr. Kapadia.—Yes.

President.—As far as Ahmedabad is concerned, I have seen copies of agreements that you have sent us and we have also seen the representative agreements sent on to us by the Ahmedabad Millowners Association. I take it the position in Ahmedabad is practically in every case it is a permanent arrangement. There are very few exceptions as far as that is concerned.

Mr. Kapadia.—I will read a very pertinent clause: "The said Agents shall have the sole and exclusive right to work as Secretaries, Treasurers and Agents of the Company and it is expressly provided and declared that the appointment to the offices of Secretaries, Treasurers and Agents of the Companies shall not at any time hereafter be revoked or cancelled on any ground for any reason whatever save and except the voluntary resignation in writing by the Agents' firm."

President.—That I find is fairly a new arrangement.

Mr. Kapadia.—This is a new Company registered only last year.

President.—Did you send a copy of that clause?

Mr. Kapadia.—I got the articles through a friend of mine only yesterday. That is the New National Mills Limited and another Company namely The Bihani Mills. That is a new feature. I find the same thing there.

President.—How old is the Company?

Mr. Kapadia.—Only recently, registered in 1931, and then there are these private Limited Companies. At present the practice in Ahmedabad is to form a Limited Company called the Agency Company. I have got the Articles of Association of the Limited Company also. That will give the Board an idea as to the manner in which the Managing Agency Organisation in Ahmedabad is being built in recent times.

President.—Could you give us copies?

Mr. Kapadia.—I have brought them for the Board.

Mr. Shroff.—Let me quote from the Agency Agreement. "Agents firm to be the sole managing, non-changeable, non-removable and permanent Secretaries, Treasurers and Agents."

President.—They believe in negative phrases.

Mr. Kapadia.—Even if malpractice is alleged, that must be proved by a resolution carried by three-fourths majority. Even if the shareholders think that the Managing Agents are guilty of certain malpractices, it is not open to the shareholders to remove the Managing Agents on the ground of mismanagement. The Managing Agents want that the shareholders should assemble in a meeting and pass a resolution by a three-fourths majority and in some cases even greater majority is required.

President.—As far as Ahmedabad is concerned we can take it that it is a permanent, non-changeable and non-removable arrangement.

Mr. Kapadia.—Yes.

Mr. Davar.—These later types of Companies are coming into fashion. That is the point to which I want to draw the attention of the Board. The agreements absolutely secure an unassailable position to the Managing Agents. That is a more dangerous factor.

Mr. Boag.—The dangerous thing is that the new Companies are continuing the old practice?

Mr. Davar.—Yes.

Mr. Shroff.—I would say not only continuing but most of the patent evils which we are trying to eliminate are being sought to be made perpetual.

Mr. Kapadia.—On that point with your permission I will read out to you the permanent clause.

President.—Is it relating to the period?

Mr. Kapadia.—Yes and to the right of the Managing Agent to continue. It is from the Gokak Mills. I am reading from Article 92. The Article lays down: "The general management of the business of the Company shall, subject to the control of the Directors be vested in the Agents and Forbes, Forbes, Campbell and Company, Limited of Bombay, merchants or their successors shall be the Agents of the Company so long as they or their successors shall be willing to act as such, the Company when called upon shall execute an agreement with Forbes Campbell or their successors providing for their appointment as such agents in terms of this Article provided always that it shall be lawful for the Company subject to the provisions of Article 157 to remove the said agents or their successors and appoint another or others in their place by resolution passed at an extraordinary general meeting by a majority of not less than three-fourths of the members of the Company and holding or representing by proxy not less than three-fourth parts of the issued capital of the Company."

President.—Three-fourths sounds very moderate.

Mr. Kapadia.—Three-fourths of the members being on the register of the Company. Supposing there are 4,000 members, three-fourths of the 4,000

members ought to vote for the resolution which is generally speaking an impossibility.

President.—Let me clear up that point again. Ordinarily when a three-fourths majority is prescribed, what it means is people who are present either personally or by proxy at this extraordinary meeting. If three-fourths of these voted for the resolution...........

Mr. Kapadia.—Not three-fourths of the people, but three-fourths of the votes.

President.—What I mean is three-fourths of the count of votes represented by people either personally or by proxy, and if the resolution is passed on that basis. Here the position is very different. Here the position is that the resolution must be passed not merely by a majority corresponding to three-fourths in votes, but also three-fourths in number.

Mr. Davar.—That is right.

Mr. Kapadia.—Three-fourths of the total capital also.

President.—Three-fourths not merely of the votes which are present personally or by proxy but three-fourths of the votes available in the Company?

Mr. Davar.—Yes.

Mr. Kapadia.—In answer to that, I may say that that is an impossibility, for the simple reason that the shareholders being scattered it is impossible for a body like the Shareholders Association to get a three-fourths majority of the total capital. Supposing shareholders holding 10 per cent. of the total capital are living in Calcutta, or in such distant places as England, it is impossible for the Shareholders' Association to get their proxies.

President.—In such a case it is impossible?

Mr. Davar.—It is physically impossible. We are only given 7 clear days. How can we possibly collect proxies and represent them in such a short time?

President.—Are you generally familiar with the arrangements in Calcutta?

Mr. Kapadia.—I am to a certain extent.

President.—I will tell you the general impression I have formed about the managing agency agreements there. Practically in every case it is for a fixed initial period which may be 10, 15 or 20 years and thereafter is subject to an extraordinary resolution and three-fourths majority.

Mr. Kapadia.—That is right. That is much more favourable from the shareholders' point of view.

President.—I recognise that. Secondly I come to the question of remuneration of Managing Agents. In Bombay I gather that there is an office allowance. That office allowance may range from Rs. 1,000 a month to Rs. 3,000 a month. In addition to the office allowance there is a commission, which, as far as Bombay is concerned, is generally calculated or assessed on profit—profit in this sense that it includes depreciation and all other funds created by the Company.

Mr. Davar.—Yes.

President.—In addition to these two provisions, there is also in many cases a provision for a minimum commission, that is to say, the commission is calculated on profit including depreciation. Where the commission is calculated on profit including depreciation, in many cases that commission is subject to a minimum. That minimum varies as far as I have seen from Rs. 6,000 a year to as much as Rs. 1,20,000, a year. Those are the three features, *viz.*, office allowance, commission based on profit including depreciation and a minimum commission.

Mr. Kapadia.—The office allowance is over and above the ordinary expenses.

President.—The expenses incurred on behalf of the mill are met by the Company. This is a different thing.

Mr. Kapadia.—Only two days ago I have looked into the managing agency agreements and Articles of Association of Jute Mill Companies and have got relevant figures before me anticipating this question from the Board. I find, so far as the Bird group is concerned—Lansdowne, Auckland, Dalhousie, etc.—that the commission is $7\frac{1}{2}$ per cent.

President.—Don't go into the question of rate now?

Mr. Kapadia.—I find that there is an allowance of Rs. 3,700.

President.—That is the office allowance?

Mr. Kapadia.—Yes, but it is laid down that the office allowance is to include expenses, rent, stationery, electricity, etc., etc.

President.—I think I have seen that clause in the agreements. It is also provided that where any person happens to be engaged at the head office of the Managing Agents exclusively for the purpose of the Company, although he happens to be at the head office, his maintenance will be met by the Company and not by the Managing Agents?

Mr. Kapadia.—That is what they call the expert's remuneration. If an expert is to be employed, all the expenses in connection with that expert are met by the Company.

President.—The particular character of the office allowance I want to discuss later on. Generally you have an office allowance. As regards the commission, suppose the commission is subject to a minimum, in Ahmedabad the almost invariable practice is to calculate the commission on sales? Am I right?

Mr. Davar.—Yes.

President.—I don't think I have come across a single case where the commission is based on profit after depreciation has been written off?

Mr. Davar.—No.

President.—In Ahmedabad when the commission is calculated or assessed on sales, it is done either in the form of a certain percentage on the proceeds or in other cases so many pies per pound and whether one is taken or the other is left to the option of managing agents.

Mr. Davar.—Yes.

President.—Am I right in thinking that the general feature of the Ahmedabad agreements is that the commission is calculated on sales either in terms of percentage or at so much per unit?

Mr. Kapadia.—That is so. There is one other item of commission.

President.—I am coming to that. In addition to this commission on sales, you have also a commission calculated at so much percentage on profits derived from certain transactions entered into by the Agents for the Company?

Mr. Kapadia.—Yes.

President.—On these other things, besides selling, there is a certain percentage which comes on to the profit.

Mr. Kapadia.—It is a percentage on the total amount of the bill.

President.—The bill is equivalent to sales. Supposing for example I am a contractor and I get work down. My sales are really the bills of work. The bills of work are really the same thing as sales.

Mr. Kapadia.—They draw a difference between the sales of goods and the other. In the former case, they charge 4 or $3\frac{1}{2}$ per cent., that is on the sales of piece-goods, yarn, etc., etc. But the other clause lays down that the Managing Agent shall be entitled to charge 5 per cent. or 4 per cent. on the total amount of bills in respect of baling, pressing, etc., etc.

President.—That is perfectly true. They are kinds of work, in respect of which you cannot calculate it on sale proceeds. Sale proceeds really mean they are proceeds or bills issued by the Company in regard to pressing, ginning and so on. Sales are really represented by bills of work which mean the same thing.

Mr. Kapadia.—The percentage differs in the two cases.

President.—Yes. In a considerable number of agreements I have seen in Ahmedabad, this provision is subject to the clause that if the Company does not earn enough to pay a particular percentage of dividend then the Managing Agents would forego up to a certain specified percentage of the commission. That is correct?

Mr. Kapadia.—Yes.

President.—Another feature with regard to the remuneration in Ahmedabad is that generally you find the Managing Agent assumes the character of a co-partner. In other words, you have a joint stock of about 16 annas and various people are interested to the extent of their holdings in this joint stock of 16 annas. That feature is not generally found in Bombay.

Mr. Davar.—The Managing Agent practically works at the mill. He takes a personal interest. That is as far as Ahmedabad is concerned.

President.—I am coming to their behaviour, Mr. Kapadia, coming to Calcutta, there is invariably an office allowance.

Mr. Kapadia.—There is.

President.—But I gather that the rate of office allowance is considerably higher in Calcutta than in Bombay?

Mr. Kapadia.—Yes.

President.—In Bombay I have seen a few cases of Rs. 3,000 but in Calcutta Rs. 2,000 to Rs. 3,000 is the common rate of office allowance.

Mr. Kapadia.—The rate of commission is correspondingly lower.

President.—The office allowance, you admit, is generally higher?

Mr. Kapadia.—That is so; but it includes expenses.

President.—In Calcutta I find the practice is almost evenly distributed. I have seen a number of cases in which the commission is calculated on sales. I have also seen a very large number of cases where the commission is calculated on profit. Calcutta seems to be rather undecided. Bombay has definitely decided for commission on profit. Ahmedabad is definitely for commission on sales.

Mr. Kapadia.—In Bombay, there are cases in which the commission is calculated on sales as well as on production.

President.—There are five or six cases.

Mr. Kapadia.—Yes, as far as production is concerned but not sales.

President.—Calcutta seems to be wavering between the two. In Calcutta when the commission is assessed on profit, the profit includes depreciation in every case. There is no case where the commission is calculated on nett profit, that is to say profit excluding depreciation. Invariably it includes depreciation.

Mr. Kapadia.—That is so.

President.—Coming to the rate of commission, I have gathered that the Calcutta rate usually, even where an office allowance is provided, is 10 per cent.?

Mr. Kapadia.—No, there I beg to differ from you. I have copies of agreements before me. Unless my copies are very old, the information at my disposal does not support your statement. In the case of Lansdowne Jute Mill Company, the commission is 7½ per cent. It was originally 5 per cent. It has recently been raised to 7½ per cent.

President.—How many agreements have you?

Mr. Kapadia.—20.

President.—Generally what is the rate?

Mr. Kapadia.—5 to 7½ per cent. In two cases I find it is 10 per cent.—that is in the case of Messrs. F. W. Heilgers & Co. Otherwise I find it is all 7½ per cent. and 5 per cent.

President.—Have you got any agreements of Martin and Company?

Mr. Kapadia.—No.

President.—Have you got any by Andrew Yule & Company?

Mr. Kapadia.—No. I have got Jardine Skinner's.

President.—What is the rate given there?

Mr. Kapadia.—In the case of Kankinarah mills, it is $2\frac{1}{2}$ per cent.

President.—Is it on profit?

Mr. Kapadia.—No, on sale.

President.—What is the rate of Heilger's?

Mr. Kapadia.—10 per cent. In the case of Naihati Mills also which are under Heilger's, it is 10 per cent.

President.—Even in the Bird group, it is not invariably $7\frac{1}{2}$ per cent.?

Mr. Kapadia.—There are three mills where the commission is charged on sales.

President.—I want to get what is the common rate of commission based on profit where that practice is followed?

Mr. Kapadia.—Anything between 5 and 10 per cent. That is all I can tell you.

President.—I have never seen a rate in excess of 10 but my feeling is that it is more 10 than any figure below 10—I am speaking subject to correction?

Mr. Kapadia.—Take the case of Empire Jute Mill Company, in the McLeod group. The commission is 11 per cent. and the office allowance is Rs. 1,500 only.

Mr. Shroff.—If you would give us an opportunity, we might prepare a comparative Table for Ahmedabad, Calcutta and Bombay, and send you.

President.—I will just finish the discussion so that you may know what are the points on which we want information.

Mr. Davar.—As the Board is now enquiring into the cotton textile industry, we have attempted to direct your attention to the managing agents who are connected with the textile industry and we have ignored other industries.

President.—In the proposals you have made to us, even though you are not now asking for the total abolition of the managing agency system, you are asking for certain very important changes in the existing managing agency system. It looks to me that since the system is the important structure with which our industrial system is closely associated, it is very difficult for us to consider the textile mills alone. Therefore it is necessary for us to get comparative figures.

Mr. Davar.—That is exactly what I thought at one time. Then it was pointed out to me that as your enquiry would be restricted to the cotton textile industry, we would not be allowed to go into other questions.

President.—My difficulty is that any recommendation that we may make with regard to textile mills must to a certain extent be coherent with the arrangements that we might make in regard to other industries.

Mr. Davar.—Yes, but that is no reason why reforms found necessary in this inquiry should not be enforced.

President.—I come to the third feature of these agreements, and that is the question of Managing Agents rendering services or carrying on business in connection with the Companies for which they are managing agents in capacities other than that of Managing Agents; that is to say, they purchase things or sell things or effect insurance. My own impression is that as far as this feature is concerned, there is no difference between Bombay, Ahmedabad and Calcutta. In all these places, that seems to be the invariable feature of managing agency agreements.

Mr. Davar.—Yes, they have the right to enter into contracts.

Mr. Kapadia.—To act as buying or selling agents.

President.—Or perform any other services such as acting as insurance agents.

Mr. Davar.—Unfortunately that is so.

President.—I am coming to that. The fourth point is one about which my ideas are very vague, and that is the precise nature of the powers vested in Directors. I find on reading through all this evidence that the general provision is that the Managing Agents carry on the business subject to the control and supervision of Directors. Whether that control is effective or not is a different point, to which I will come later on. The usual provision is that they carry on the business subject to the control and supervision of Directors.

Mr. Kapadia.—That has been departed from in Ahmedabad.

President.—I am now on the general point. As far as that is concerned, that appears to me to be the general feature in Ahmedabad. Calcutta and Bombay.

Mr. Kapadia.—Yes.

President.—Let me tell you the point which I have understood, *viz.*, where the provision is that the Managing Agent carries on subject to the control and supervision of the Board of Directors, the residue of power is vested in the Board of Directors.

Mr. Kapadia.—Yes.

President.—In the new agreements that you have sent us, the residue of power is vested in the Managing Agent?

Mr. Kapadia.—Yes. It is more than that.

President.—Don't put more into that than it contains?

Mr. Kapadia.—So far as the question of residual powers vested in the Board of Directors is concerned, it is a different matter. But the Ahmedabad agreements have gone much further. They lay down that the Directors shall not perform certain acts and that the Managing Agents only shall be entitled to perform those acts.

President.—That provision is this. In certain agreements, you find that concurrent powers are vested in the Board of Directors and in the Managing Agents and then the agreements go on to say where concurrent powers are vested in the Board of Directors and the Managing Agents, it must be understood that the powers are really vested in managing agents.

Mr. Kapadia.—Even that I would not admit. I say that the articles specifically lay down that the Directors are not to do certain acts. They are specifically reserved to the agents. The managing agents alone shall be entitled to perform those acts and there is no appeal against them.

President.—Does it come to this where the provision says that the managing agents shall carry on the business subject to the control and supervision of Directors, that control and supervision would not apply to certain matters which are specifically described in the agreement as being outside the jurisdiction of Directors?

Mr. Kapadia.—That is the correct position.

President.—Does that apply to many agreements?

Mr. Kapadia.—That is the trend of new agreements. I have come across many such cases.

President.—In Ahmedabad?

Mr. Kapadia.—Yes, they are all recent ones.

President.—In fairness to Bombay you must admit that you generally don't find that in Bombay?

Mr. Davar.—New companies are not formed or could not be formed in Bombay for reasons which are well known.

President.—As far as Calcutta is concerned, the usual phrase is subject to the control and supervision of Directors. The next point is the number of Directors nominated by Managing Agents. Supposing I said in all these cases—Bombay, Ahmedabad and Calcutta—it was generally 1 to 2 Directors?

Mr. Davar.—Sometimes 3.

President.—That is rare?

Mr. Davar.—Yes. The most pertinent point is how many Directors are there as a maximum and actually working.

President.—I am coming to that question. I am simply taking now the number of Directors nominated by Managing Agents. I shall come later on to the question as to how far even where control and supervision are vested in Directors, their control and supervision under the agreement can be effective. You will agree that it is generally 2 and in exceptional cases 3.

Mr. Davar.—Yes.

President.—The next point is where for any reason a company is required or compelled to transfer its business, then it is an invariable feature of managing agency agreements that the managing agents must have the right of continuing in their office, that is to say they would continue as managing agents to the new company subject to the conditions of the original agreement.

Mr. Davar.—And sometimes compensations are provided for.

President.—That is in the case of winding up. I am now speaking of transfer. Probably you are right there. I have come across in one case a managing agency agreement in Calcutta where this provision that the managing agents shall continue in case of a transfer of the business is coupled with the provision that if it is not done then managing agents are entitled to compensation fixed by a firm of chartered accountants.

Mr. Kapadia.—Or by an actuary.

President.—Next the question of assigning. I take it it is a feature of the Bombay agreements that the managing agent or the members of his firm may assign his interest: in a few cases he may assign the agreement itself, the difference being that in one case he transfers his earnings and in the other case he transfers his duties.

Mr. Kapadia.—That is so.

President.—In Ahmedabad I suppose the common feature is that he may assign both the interest and the agreement.

Mr. Kapadia.—That is right.

President.—In the Calcutta agreement I see no provision for transfer, neither of interest nor agreement, in Bombay there is provision for transfer of interest and in Ahmedabad both interest and agreement. Next we come to the question of compensation on winding up. Both in Bombay and Ahmedabad the managing agent is entitled to compensation: In Bombay I find that the usual feature is that the compensation is equivalent to the earnings of the past five or six years.

Mr. Kapadia.—I have come across agreements where the period is as long as 10 years or even 15 years.

President.—The general feature, as I said, is five to seven years and in Ahmedabad it is 10 to 12 years.

Mr. Kapadia.—Yes.

President.—In Bombay, I think they generally put it in this form—it is five or seven times the earnings of the previous year, whereas in Ahmedabad it is 10 times the average of the last 10 years so that they get the benefit of the depreciation.

Mr. Kapadia.—In Ahmedabad it would be terrible, the commission being on either production or on sales: to give the managing agents a consolidated commission for 12 years is something very terrible.

President.—In Calcutta there is no provision for compensation at all.

Mr. Kapadia.—I have come across one or two instances.

President.—Will you send them on to us?

Mr. Kapadia.—Yes.

President.—That last point to which I find you attach considerable importance, is the number and character of the companies which a single managing agent may hold charge of. As far as I can make out, there appears to be no difference in this respect between Bombay, Ahmedabad and Calcutta: the same managing agent may be in charge of various companies doing various kinds of business.

Mr. Kapadia.—May I point out the difference in this respect between Bombay and Ahmedabad? The textile industry is the mainstay of both the places and I have hardly come across any firm of managing agents who manage more than four mills in Ahmedabad and there are no other industries in Ahmedabad which can be said to divert the managing agents' attention and energy.

President.—You can't think of a managing agent who is in charge of more than four mill companies?

Mr. Kapadia.—That is the utmost they have, whereas in Bombay the case is different. Here we have not only managing agents who manage 14 or 15 mills but the same managing agents sell stores, manage hydro-electric concerns, cement concerns and many other things.

President.—In Calcutta you will find managing agents in charge of an enormous number of companies. There is nothing to prevent managing agents from being in charge of companies which in respect of their business may come easily in competition with one another. I have seen one agreement, and since the company has not asked us to keep it confidential I may tell you that it is an agreement between Messrs. Martin and Company and the Hooghly Docking and Engineering Company. That is rather an interesting agreement: there the last clause is that the "Managing Agents shall not at any time during the currency of this agreement either on their own behalf, or as managers or agents or for any person or persons firm company or corporation directly or indirectly carry on or be engaged or concerned or interested in the business of a shipwright or dock owner in Calcutta". This is the only case I have seen where the managing agent agrees not to engage in competitive business. I now want to go on to the points that you have made with regard to several of these companies in your original representation. Since your representation is not by any means a short document I have thought it necessary to summarise it for my purpose: I am now on paragraph 9. There you raise the question of the basis on which commission is calculated—that is on the basis of profits. You are definitely of the opinion that where a managing agent is remunerated by commission on profit, depreciation and all other things accrued by the company should be definitely excluded.

Mr. Kapadia.—Yes, for the simple reason that when an average man thinks of net profit he would naturally expect these charges to be deducted before arriving at the net profit. It is not only an accountancy term but it is done in all business.

President.—Supposing I said in answer to that that after all a statement in a managing agency agreement that commission when calculated on profit should be calculated on profit *plus* depreciation does not by any means imply that the managing agent or anybody else considers that depreciation is not part of the direct charges to be borne by the company, that it is simply a basis for calculation and nothing else, what would be your answer to that?

Mr. Davar.—There may be a certain statement in the agreement and it may be argued that technically everybody who buys shares must read that agreement as well as the articles of association and memorandum. If you look at it as a general proposition as a man in the street, an average investor of the class from which he is drafted capable of doing it even if he wants to do it and can afford to do it. If you want to keep the flow of capital regular and without obstruction or if you want to remove the prejudice of a petty clerk or a small trader who wants to invest in a joint stock company, I would suggest that such hiding of things in an agreement ought to be avoided. There is another feature of this and that is that depreciation

is kept aside and on the net profit he charges commission. This will encourage him to over-depreciate certain assets and create a reserve with a view that in bad times it may be utilised for purposes of manipulation.

President.—On the other hand if you ask him to base his commission on profit . . . .

Mr. Davar.—If it is over depreciated the auditor would not come in the way but if it is under depreciated the auditor may or may not let it pass.

President.—If you take a flat income-tax rate it would work somewhere at 4 per cent. If you take the great majority of mills in Bombay since the depression started, they have not set aside anything like 4 per cent.: if on account of difficulties mills have been able to set aside considerably less depreciation than the income-tax rates permit, then don't you think the mill company might hereafter say I can only set aside only such amount as I feel under the financial circumstances of the company I can do?

Mr. Shroff.—But he has to make up depreciation which has been in arrears. In Bombay depreciation is always taken as the first charge on profits which are made in better years. Granting that he is a wise man—a business man at all—he would always like to conserve his property.

President.—We are considering the question of granting protection and suppose we decided as a result of this enquiry to declare the cotton textile industry definitely protected for a sufficiently long period to enable it to establish itself, then it seems to me that it is in the interest of the industry and the country since a definite burden is laid on them that the industry is in a position to undertake all such healthy developments as would reduce its costs to enable in the shortest time to dispense with public assistance and an essential condition for that is that adequate amount should be set aside for depreciation. I take it that unless the Bombay shareholders are very different from shareholders in other parts of the world it is to their interest to set aside less for depreciation and earn greater dividends and it is also to the interest of the managing agents that more profit than depreciation should be set aside every year. Don't you think in both directions there will be a tendency in operation for depreciation to be sacrified to profits?

Mr. Shroff.—The Bombay Shareholders' Association has only a very short life but I would like to be pointed out one instance where the Association representing the shareholders has taken up an attitude which would justify a charge that we have not been interested in the question of depreciation. What we want to point out to you is that depreciation must be taken as a charge on the costs. It must be a part of the cost of production. It is a point which we do not want to leave in doubt.

President.—I am not for one moment questioning that, but here when commission is calculated on profits it does not necessarily mean that depreciation is not regarded as a charge; all that it means is that depreciation is simply taken as a basis for this particular calculation.

Mr. Shroff.—This argument becomes inconsistent if you admit that depreciation is a charge on the costs: then you cannot arrive at the cost without taking that charge into consideration.

President.—I find in your representation that while you ask that commission should be based on profit excluding depreciation, you are prepared to raise the rate.

Mr. Davar.—Yes, in suitable cases only.

Mr. Shroff.—Our main object in insisting on this is this. We want to be very clear in our idea as to what the agent means. We want to make a very clear distinction between the agent as a capitalist and mere wage earner, and a fixed income earner. Therefore, if depreciation is taken out of the profits and it leaves very little for the agent we are not going

to be sorry for that because we do believe that the agent must take the risk of the fluctuating fortunes of the industry.

President.—The managing agent is the capitalist, he is the entrepreneur: he in addition to being the capitalist is also supposed to take the place of managing director and to this extent he is a fixed wage earner.

Mr. Shroff.—He is a part time earner: the managing director is supposed to be a full time man.

President.—Whether your managing director is part time or whole time to the extent that he performs that service the managing agent is a fixed wage earner?

Mr. Kapadia.—There is a very clear distinction. The advantage of having a managing director is absolutely clear. The managing director is supposed to devote all his time and energy to the direction of the business: the managing agent according to our view has failed to perform that rôle.

President.—Whether he performs his rôle efficiently or inefficiently in theory he is supposed to perform it?

Mr. Kapadia.—In theory we might agree, but not in practice.

President.—He does perform that rôle in theory and therefore theoretically he is entitled to a fixed wage?

Mr. Kapadia.—He is there not exactly as a wage earner if you like to call him a wage earner. He is there doing this managing agency work as a part of lots of other work that he is doing and the express arrangement is that he gets his remuneration in proportion to the profit.

President.—Supposing it was a question of fixing it entirely on net profit in the sense of profit without depreciation, to what figure are you prepared to go? I ask you to tell me this without committing yourself in any way. You have made this suggestion and it was also a suggestion made in the Tariff Board's report in 1926.

Mr. Shroff.—If you like we would work it out and send you a short note, but we can assure you that we won't be very niggardly.

Mr. Davar.—If there is no minimum commission and no office allowance we might agree to 10 per cent.

President.—I am coming to this aspect of the question later not that I have any views on the intrinsic merits of the case but supposing you object to the whole system of office allowance and profit on depreciation—and these are features common to the managing agency system throughout the country, in various industries,—then it is perfectly obvious that it is impossible for us to propose any measures specially in connection with the textile industry; the question will have to be one affecting the whole of India.

Mr. Shroff.—We might as well suggest that as the Indian industries go to you for protection, that should be done in connection with those industries which are granted protection.

President.—Having allowed protection in the case of various industries which are managed by Managing Agents on a basis to which you are objecting, personally I find it difficult to say that the textile industry should be treated differently from other industries.

Mr. Shroff.—There are very good reasons for that. Let us take the case of iron and steel. The directions in which it is possible for the Managing Agent of a Cotton Textile Mill to make profits of all sorts are directions which, I submit, are not open to the Managing Agent of an industry like iron and steel.

President.—Leave out iron and steel. Take the case of the paper industry.

Mr. Shroff.—We have not particularly studied the question of paper

President.—It looks to me in many features the way in which the Managing Agents operate are precisely the way in which Managing Agents act in paper.

Mr. Shroff.—We didn't have an opportunity to place our views before the Tariff Board in regard to that enquiry, because there are in Bombay hardly any mills except the Deccan Paper Mills. We have not studied that industry so well as we have studied this issue.

President.—There are two aspects to this case. To what extent can you suggest with regard to the Cotton Textile Industry the abuses to which the Managing Agency system has led may be remedied and to what extent can you provide sanctions in the Cotton Textile Industry (Protection) Act for the enforcement of conditions suitable for remedying these? That is one question. The other question is: are these abuses that the Managing Agency system has led to of such a general character that you cannot make suitable legislative provision unless you consider the question on a comprehensive basis. Supposing on a consideration of this problem I come to the conclusion that all the features of Managing Agency system to which the Bombay Shareholders' Association have objected are features which are to be found in every other industry in the country, then the only suggestion that I can make to the Government of India is that this question must be subject of a special *ad hoc* enquiry.

Mr. Shroff.—There are two directions in which you can suggest an adequate provision. One may be of a temporary nature. When an industry like the Cotton Textile Industry goes to you seeking protection and, as you are aware, we are not opposing protection as such . . . . . .

President.—I think you want more of it than the Millowners' Association.

Mr. Shroff.—Yes, it would be quite in the fairness of things for you to suggest. The consumer is going to bear the additional burden. The taxpayer is also going out of his way to bear the additional burden by granting protection. At least during these few years, is it not fair that the Managing Agent who forms such an important part of the industry should be called upon to make some sacrifice?

President.—There is no difference of opinion as far as that is concerned.

Mr. Shroff.—It is one thing as a temporary measure to call upon the Managing Agents.

President.—Mr. Shroff, I am not contesting your propositions which are universally true. Supposing we felt it necessary that certain changes should be made in regard to the management of the Cotton Textile Mills, we suggested conditions to the Government of India and the Legislature, and the Government of India and the Legislature impressed by our arguments are anxious that these conditions should be enforced upon the Cotton Textile Mills provided protection is granted say for the next ten years what exactly is the kind of sanction by which these conditions can be enforced?

Mr. Shroff.—I can suggest something. I take it that you are going to examine us on several other points later where we hope we will be able to satisfy you. In your recommendations you can suggest that though protection may be granted for 10 years, the Mill Companies are allowed three years in which to effect certain what we consider badly needed reforms. If, at the end of three years, the Mill Companies failed to satisfy the relevant department of the Government of India or the Tariff Board if necessary, that they have fulfilled the obligation of bringing about these reforms, I would go so far as to suggest that protection may be refused.

President.—I will put you a hypothetical question. At the end of three years there are over 300 mills in India. There are 100 mills which have accepted all your suggestions and their houses have been set in order and there are 200 mills which have not. What are you going to do?

Mr. Shroff.—I don't look to individual mills to fulfil its obligations.

President.—Supposing that is the position, what are you going to suggest?

Mr. Shroff.—One important condition that you lay down is the industry must organise itself.

President.—Supposing 100 mills organised themselves and 200 mills don't, am I going to sacrifice the interests of 100 mills which have behaved?

Mr. Shroff.—I don't believe that it would be impossible to insist upon a condition like this that mills in particular localities or particular Presidency come together and form one unit.

President.—I am not suggesting that at all. There are 10 mills in Ahmedabad, 10 mills in Baroda, 50 mills in Bombay. They have all re-organised themselves and others have not. What am I to do?

Mr. Shroff.—I am afraid you have not followed my point. What I suggest is that you should have an organisation like the Bombay Millowners' Association or the Ahmedabad Millowners' Association.

Mr. Rahimtoola.—Bombay Millowners' Association does not consist of all the mills which are in Bombay. There are certain mills in Bombay which are non-association mills.

Mr. Shroff.—If you make it a condition and call upon the mills to join central bodies like the Bombay Millowners' Association to whom you could look for a lead in this matter.

President.—I am sorry as far as that is concerned, I am not convinced. Unless you are going to give protection in the form of direct subsidies, I see no kind of protective sanction by which this kind of thing is enforced.

Mr. Davar.—I was thinking of a sort of bounty.

President.—If you are in a position to give bounty, then you can withhold the bounty from a company.

Mr. Shroff.—Give the bounty only to those Companies as have carried out the different requirements and withhold the bounty from the rest.

President.—That is the only way in which it can be done. Supposing for practical reasons that we cannot give protection by means of bounties, and we give protection by means of duties, then the prices rise and both the well-behaved and the ill-behaved ones will both benefit.

Mr. Kapadia.—Can you not recommend, assuming that you hold the views which we have set out in our recommendation, to the Government of India or the Legislature that a section be introduced in the Bill which may be brought to give effect to your proposals that no Managing Agent shall be entitled to obtain from his Company directly or indirectly anything except his prescribed agency remuneration.

President.—That is one of the many suggestions which you have made.

Mr. Kapadia.—I was trying to meet the point of view which you placed before Mr. Shroff—what is the sanction in any scheme of protection that may be adumbrated? I am suggesting this that it would be perfectly open to the Legislature to put in a section in the Protection Act that may be passed as a result of your Report that no Managing Agent, notwithstanding anything contained to the contrary in any articles or in any agreement, shall be entitled to obtain from his Company anything directly or indirectly except his prescribed remuneration as a Managing Agent.

President.—Supposing the Managing Agent doesn't comply with it?

Mr. Kapadia.—Make it penal.

President.—What you are then asking is that into the Protection Act you must introduce a sanction which is not necessarily related to protection, but sanction of a general character. For example you take the Companies Act. The sanction in the Companies Act is a general sanction which it takes the form of fine or imprisonment and in some cases both. You have got to introduce a sanction of that kind into the Protection Act which would be a novel thing to do. I am not in the least suggesting that there is any fundamental objection, but it is somewhat a novel thing to do.

Mr. Kapadia.—If we have got to tackle a disease and if we are convinced that the disease is there and has got to be tackled, then the

necessary remedy has got to be adopted. You are granting protection to the industry. The object of protection is to see that the profits are devoted for the purpose of, I should say, enriching the country.

President.—Let us say of stimulating the investment in industrial enterprises.

Mr. Kapadia.—If that is so, is there any reason why the State should not step in and say to the Managing Agents: "We shall not allow you to rob the industry like this. We won't allow you to have 5, 6 or 7 kinds of different interlocking commissions as remunerations. You are a Managing Agent and your duty is to manage the industry. No doubt you ought to be paid a certain amount of remuneration for managing it. Beyond that you shall not be paid anything."

President.—Mr. Shroff was suggesting a period of 3 years. We are prepared to allow a period of 3 years. Supposing as a matter of practical politics it was possible for Government to consider the question of Managing Agency system as a whole in regard to protected industries, taking also into account the necessity of providing industrial finance in the country as the Banking Enquiry Committee suggested, supposing it was possible for the Government to consider all these matters and bring about a reorganisation of the Companies Act within a period of 3 years and these provisions were included in the Companies Act based upon the sanctions which are to be found in the Companies Act, would that satisfy you?

Mr. Kapadia.—The wheels of Government move very slowly and we do not know whether the Indian Companies Act is going to be revised for another 10 years. I myself have got very serious doubts. It is for that reason that we want the Board to recommend, provided the Board is convinced of the facts which we have placed before them, that the Managing Agents shall not be allowed to continue to receive these different kinds of commissions and remunerations.

President.—We, as a Board, have not yet had time to consider these questions. Assuming for the sake of argument that there are certain features of Managing Agency agreements which are not consistent with the objects of protection, supposing we came to that conclusion and we therefore definitely said to Government that the earliest opportunity should be taken for mending matters?

Mr. Davar.—That would be a satisfactory tentative arrangement. As far as we are concerned we should be happy that through any Agency whatsoever the amendment of the Companies Act is expedited by the Government. If your suggestion is likely to do so, we should be happy, but I have one more point in connection with Mr. Shroff's scheme. The difficulty as regards bounty, as you yourself pointed out is there. Could you not in that case put in something to this effect? Details of it could be evolved in this way—after three years a report may be called for.

President.—Three years after the Protection Act has been brought into force.

Mr. Davar.—If there are certain number of mills which have not carried out the various suggestions that your Board has made, then they should be taxed more or less in the same proportion as protection accorded to them.

President.—The levying of that tax is not an easy thing.

Mr. Kapadia.—The existence of the clause in the Act to which I have alluded will make them straight.

President.—The levying of such a tax from year to year would mean an inquisitorial investigation every year.

Mr. Shroff.—It is only in connection with one industry, *viz.*, the Cotton Textile Industry which is a very important industry for this province.

President.—You can levy an excise duty on Companies which do not comply with these conditions, but whether a particular Company complies with these conditions or not is a matter which would require very careful investigation.

Mr. Shroff.—It will have to be done by Superintendents or Officers appointed by Government.

President.—Mr. Kapadia was talking about the slowness with which the wheels of Government are moving. I am afraid they do move very very slowly. Supposing the Tariff Board made a recommendation to Government, it is open to Government to turn it down or take five years to accept that.

Mr. Shroff.—The one arrangement I am suggesting is this: Government is going to get revenue out of protective duties. The duty will be there and the revenue will be there.

President.—I am prepared to consider your proposal. My own instinctive feeling is whether Government will accept it. The Tariff Board ought to make proposals which have a reasonable chance of being carried out. We don't want to be discredited.

Mr. Shroff.—I have very great respect for the Tariff Board. Why should not the Tariff Board state if, in its heart of hearts, it thinks that such a clause is beneficial and practical. Whether the higher authorities will accept it or not is not its lookout. Public opinion would be considerably reinforced in case the Tariff Board makes such a recommendation.

President.—As far as the reinforcing of public opinion is concerned, all that you expect us to do or you want us to do is this: supposing we are convinced that certain features of the Managing Agency system are inconsistent with the objects of protection, supposing we said so definitely and then with regard to recommendations for bringing about reforms necessary, as far as those recommendations are concerned, supposing we put them on a somewhat more practical basis than you have suggested, provided the necessity for making the changes is sufficiently stressed in the Report, isn't that enough for your purpose if the enforcement of public opinion is only your primary concern?

Mr. Kapadia.—That would not be of any material advantage.

Mr. Davar.—Supposing you did and Government didn't take up the question of amending the Companies Act and you gave protection for 10 years and the industry went on merrily in the same old fashion, then where are we going to be?

President.—May I suggest a point in that connection?

Mr. Davar.—There must be some brake or check. That is what we are trying to get at.

President.—We have sent you the names of the particular mills on whose costs we have to base the rates of protective duty. We examine those costs partly in the light of the information that you have given us. We eliminate from the costs every item which is the result of mismanagement. We take only that part of the cost which, in our opinion, is a reasonable legitimate cost. We base our rate of protective duty on that. I take it then that if the protective duty is based on that, every mill in Bombay which is pursuing practices of the kind to which you object and whose costs therefore will be higher will be automatically penalised.

Mr. Kapadia.—Who would be penalised? So long as there is no compulsion on the Mill Agent to set right things which add to the cost of the mill, who is to be penalised? The party to be penalised will be the shareholder. The Managing Agent would have his commission; the labourer would have his wages, everybody would get everything, but the shareholders would have nothing. You might base your costs on this hypothesis and say that this should be the figure for costs for reasonably efficient mill. But if the Managing Agent who is running the mill is not trying to adjust the cost according to the estimate of the Tariff Board, who is the party actually penalised?

President.—The remedy for that is a very active Shareholders' Association.

Mr. Kapadia.—No.

Mr. Shroff.—We are blamed for being too active.

Mr. Kapadia.—Shares are not transferred to our names. We are being stifled. Secrecy clauses are being thrown at our faces. They say "we shall not answer this question and that question. Please sit down. It is not in the interests of the Company. This is inexpedient, etc., etc".

President.—Things are improving.

Mr. Kapadia.—Not a bit. As a matter of fact the recent trend of events shows that the Managing Agents are acting as grand Moghuls.

President.—I notice that the Chairman of a very leading bank the other day made a very complimentary reference to the Shareholders' Association.

Mr. Kapadia.—Because the Management seems to have become wiser.

President.—That is what I say. Things are improving.

Mr. Kapadia.—The Tariff Board has been in Bombay for the last 2 or 3 months. It must have read the reports of Company meetings. I have sent you certain correspondence from which you must have noticed that the Managing Agents decline to give even legitimate information.

Mr. Davar.—Nothing can be done by us, shareholders, unless we are able to get a three-fourths majority and it is impossible as things are at present to get a three-fourths majority, so that it is no use looking at the other side of the case.

President.—If you cannot get your resolution passed every time you are able to say things publicly which would make the Managing Agent sit up at least once a year. Won't that have a stimulating effect?

Mr. Kapadia.—They have a thick skin.

Mr. Shroff.—If we succeed in getting a thing done by one Managing Agent, we are at once on the black lists of other Managing Agents.

Mr. Davar.—To-morrow if we want to buy any shares, they will refuse us and that clause in the Articles of Association says that they are not bound to give any reasons. So, there is an end of it. Many cases have been decided on the authority of that clause and once the clause is there, they are not bound to give any reasons.

Mr. Kapadia.—This is a very important point on which discussion is going on at present. Even if the Board thinks that the Protection Bill should not contain a clause . . . . . .

President.—I do not object to the clause as such. If it is there, it could be enforced only by means of general sanction.

Mr. Kapadia.—The Protection Act may declare that such stipulations as are to be found in the managing agency agreements or in the Articles of Association whereby the Managing Agent is authorised to contract and work for the company would be invalid.

President.—That is not a practical point of view. Supposing all these contracts which are now being entered into by Managing Agents in terms of managing agency agreements, *viz.*, purchasing, buying, selling, etc., are to be declared invalid and supposing Government accept the particular piece of legislation, on what ground can Government differentiate other Managing Agents of jute, coal and tea companies?

Mr. Kapadia.—I am putting it on the ground of protection. When the textile industry approaches the Tariff Board for protection, when the textile industry approaches the Legislature for protection, is it right that the textile industry should be conducted in such a manner that the managing agents can themselves act as buying and selling agents?

Mr. Davar.—Mr. Kapadia's view is that it should be applied in connection with the textile industry alone because it is the textile industry that has come to you for protection now.

President.—The paper industry is a protected industry.

Mr. Davar.—We are only concerned at present with the textile industry.

President.—But we have to be fair. The Legislature has to look at it from an All-India point of view. My point is this. I should personally find it very difficult to advise the Legislature that they ought to enforce conditions in connection with protection on the textile industry which they have not enforced in connection with other industries which have received protection to the same extent?

Mr. Davar.—At present you are investigating the Cotton Textile Industry. When you investigated those industries, these things were not put before you.

President.—This problem was there. Take this question of commission calculated on profit *plus* depreciation. In the fair selling price that we estimated for the paper industry on which the protective duty was based, we calculated the agents' commission at 10 per cent. on profit *plus* depreciation and gave that to the industry. Now if somebody turned round and said "You have given that to the paper industry and why do you refuse it to the textile industry", what am I to reply?

Mr. Davar.—The position of the cotton industry is different.

President.—In what way?

Mr. Kapadia.—The textile industry is a large scale industry whereas the paper industry is not such a large scale industry. You might also say that your attention was drawn to certain facts now, to which your attention was not drawn then. You might say that the Bombay Shareholders' Association came forward with their representation and drew your attention to certain facts which were never brought to your notice in the previous enquiries.

President.—There is another point which also arises in this connection. Supposing we accepted your suggestion and decided to put in a provision on those lines in the Protection Act itself, that would apply to mills situated in British India only. Even if the Protection Act contained a clause to that effect, it could not apply to mills situated in Indian States. One of the dangers with which you would be faced is that there would be a gradual flight of the textile industry from British India to Indian States. Ten years ago, the problem was not very acute. To-day next to Bombay and Ahmedabad, the production of Indian States is the highest. If you place restrictions on the industry in British India, you would simply drive the industry to Indian States, especially in Bombay where you have such a large number of Indian States.

Mr. Kapadia.—Without such restrictions, the industry is migrating.

President.—This will hasten the process!

Mr. Kapadia.—I don't think so. On the other hand, the investors will have greater confidence and will come forward and invest money in the industry if this restriction is put.

President.—Under the present conditions, to the extent that the managing agent represents finance, initiative and so on, the managing agent would, when he thinks of another mill, think of Baroda, Indore, Mysore, etc. He will not think of Bombay. Why should he if Professor Davar's suggestion with regard to the excise duty was accepted? The excise duty would be all right when the industry in the Indian States was not a competitor. One of the great dangers before Bombay is the flight of the industry from British India to Indian States.

Mr. Shroff.—If that view prevails, then in respect of several other things which British India has to do in spite of what may or may not be done in the Indian States, I think, one greatest problem is raised. Take for instance the factory legislation. The Indian States did not fall in line with the British India. Still, the British India went on. Similarly we want to establish our own standards. I am perfectly certain that if we do so, even though the States may not fall in line with us immediately, they won't take long. Circumstances will compel them to fall in line with us.

President.—I quite admit that various forms of legislation which have been undertaken in British India are giving industries located in the States an unfair advantage. There is no getting away from it?

Mr. Shroff.—Quite.

President.—The point that I want to put before you is this. Since the position of the Bombay textile industry is particularly acute and one of the chief internal competitors of the Bombay section of the textile industry is the mill situated in Indian States, am I justified in the name of protection in placing further restrictions upon the Bombay industry? If you think that it is all right, then there is an end of it.

Mr. Shroff.—If you will excuse my putting it this way—would such circumstances justify your recommending the withdrawal of certain stringent factory regulations which would allow your mill labour in India to work all the 24 hours?

President.—I will tell you, Mr. Shroff, my views on that subject. The particular point we are considering is the relation of the managing agency system to the textile industry. Unless I am very wrongly informed at present the one essential service that the managing agent renders is that he provides the finance.

Mr. Shroff.—We will have an opportunity of saying something on that later on and therefore at this stage we will not take this as an assumption.

President.—What is your view about it?

Mr. Shroff.—It will have to be elaborated considerably.

Mr. Davar.—We do not admit that the managing agents have always financed and financed very satisfactorily.

Mr. Shroff.—As a matter of fact we will show you that one of the present difficulties of the industry has arisen out of the financial weaknesses of the agents themselves.

President.—If you are going to substitute some other agency for the managing agent, you would find it difficult to do so. As far as that point is concerned, I think the position has been stated very clearly in the Banking Enquiry Committee's report. If you read both the majority and the minority report, they have stated the position very clearly and it is this that to the extent that there is no satisfactory system of industrial finance in this country, the managing agent does render a service. You cannot get away from that. If you want to send the managing agents away from all industrial concerns, then it is necessary by means of State action that you have to provide an organisation by which the industrial finance could be arranged satisfactorily. You must get your Reserve Bank and get a system of industrial finance.

Mr. Davar.—As regards the point raised by you about the Indian States, I have an answer and that is as follows. The object sought to be attained by putting a restriction of this character is that the industry should get the full benefit of protection. If the mills carry out the various reforms which the Tariff Board may consider are very imperative for the improvement of the industry and thus can make larger profits and get a better return on their capital, then your fear of the industry migrating to Indian States will not come about because once you begin to improve the mills in Bombay through your suggestions for the removal of the unnecessary drain and irregularities by the present managing agents the mills in Indian States with the existing irregularities and restrictions will have very little chance of competing with mills situated in Bombay. Besides that, the new mills that may be started in Indian States will have to get their capital from shareholders in British India.

President.—Who is going to provide the finance—the existing managing agents?

Mr. Davar.—I don't think that they are very anxious to provide the finance. They want people to buy the shares and allow them to manage the show. They will only pay when they are forced.

President.—As far as I understand the position, the managing agent tries to provide the initial finance. He collects a certain number of friends who will contribute the finance. In that way, he gets together a certain amount of initial capital; initial enterprise and the initial finance which are necessary for starting a mill come under present conditions from the managing agent. My fear is that you will transfer in the initial enterprise and initial finance from British India to Indian States.

Mr. Davar.—You mean through managing agents situated in States? I am not aware of any such.

President.—The man at this end will go there.

Mr. Davar.—No. The point is: is it necessary at the present stage of the industry—I mean the cotton textile industry—to find initial finance and enterprise? I am not talking of depressed conditions at present. I am talking of days, during the war and immediately after the close of the war when the industry was in a flourishing condition. Could not the managing agents have got all the capital they wanted by issuing additional shares? Did they attempt to do so? I am talking of ten years ago.

President.—You are talking of times before 1923-24?

Mr. Davar.—Yes, with a view to illustrating one point, *viz.*, that the managing agents are not very anxious to get finance in that fashion. Take the case of the Sholapur mill. In early days it might have been necessary to rely upon deposits. At one time Sholapur made 200 per cent. profit and they could have easily converted the block capital which was partly in the form of fixed deposits into share capital.

President.—It is no use crying over spilt milk.

Mr. Davar.—It is not necessary under normal conditions to have a managing agent to arrange for finance for a textile mill if it is run in the proper way. If the shareholders have invested they have confidence in the men who are running the show. It must not be taken for granted that no mill in this country can be started without a managing agent in spite of the fact that more backward countries have all sorts of industries without managing agents.

President.—Supposing you wanted to get a short term loan from a Bank, you have to give two securities. Suppose you are a mill company. You want to get a loan from a Bank. Where do you get your second signature from?

Mr. Davar.—They generally get from the Directors.

President.—I am speaking of India.

Mr. Davar.—I am talking of places outside India.

President.—The practice of requiring two signatures is an essential part of the present Banking structure of the country.

Mr. Davar.—Why, Sir? not, if you pledge your goods!

President.—Even if you pledge your goods?

Mr. Davar.—That point has been cleared up before the Banking Enquiry Committee. The representative of the Imperial Bank of India said before that Committee that the Bank took it because the stock was not pledged.

President.—I don't think that that statement is consistent with facts.

Mr. Shroff.—I think that a distinction should be made between pledge and hypothecation. In fact this distinction has been explained in the majority Report of the Banking Committee.

President.—The pledge requires certain physical possession. You have to give actual control of the Bank. When you have to do that, don't you think that there is a great deal of very natural objection on the part of people to doing it? It may be right or wrong, but there it is.

Mr. Davar.—The natural objection arises from the fact that there are deposits maintained by these people.

President.—It is no use trying to explain facts?

Mr. Davar.—I am taking facts as they are.

President.—If you take facts as they are and then if you take into consideration tho fact that you have to arrange for current finance for a mill company, is it possible for you to-day, under the present restrictions in relation to Banking—they may be right or wrong—to find the necessary working capital unless there is a second signature?

Mr. Shroff.—With the managing agency system, existing as it is to-day, you want us to answer that point?

President.—What I was trying to raise is this. Supposing a new mill was started next year after protection was introduced with an independent Board of Directors and no managing agent, and supposing that company wanted to raise working finance, under the present system of Banking in the country, would it be possible for that company to raise its finance unless there was a second party to put his signature?

Mr. Kapadia.—I will answer you by referring you to one fact. You know that the cement industry is being managed under the system of managing agents. It is a well established industry. Two or three years ago two cement companies were started in Bombay without managing agents and there was no difficulty experienced in raising the finance. I am referring to Okha Cement Company and the United Cement Company.

President.—How did they raise their finance?

Mr. Kapadia.—I am trying to answer your point. You asked us whether it was possible to obtain working finance without the guarantee of the managing agents and my answer to that is that two or three years ago two important cement companies were floated in Bombay.

Mr. Boag.—What was their capital?

Mr. Kapadia.—In the case of the Okha Cement Company, the capital was Rs. 30 to Rs. 32 lakhs and in the case of the United Cement Company, the capital was about Rs. 32 lakhs. They were floated without managing agents and with men like Mr. F. E. Dinshaw and Sir Purshotamdas Thakurdas on their Directorate.

President.—How exactly was the financing done?

Mr. Kapadia.—It was done by the Companies themselves.

President.—You do not know the precise way in which it is done?

Mr. Shroff.—It is done like this. Taking the case of United Cement Company, they have a capital of Rs. 32 lakhs. Their block is worth Rs. 24 lakhs and they have provided from the start for a working capital of Rs. 8 lakhs out of the paid-up capital. If they require more finance, it will be obtained from loans against stocks.

President.—Loans from what parties?

Mr. Shroff.—From Banks against stocks.

President.—In that case no second signature was required.

Mr. Shroff.—I tell you from personal experience that it would not be absolutely correct for you to say that two signatures are indispensable. I have myself arranged for loans with banks for some mills of Bombay and there is a scramble for getting cash credit.

President.—I put that point and Sir Monmohandas told me definitely that the statement was incorrect and he did not accept it.

Mr. Kapadia.—Sir Joseph Kay himself admitted that where the goods were pledged with the bank a second signature was not required.

Mr. Davar.—The banks say that if the stock is pledged and a board put on it, they are prepared to give loans without second signature, but the present managing agency cannot afford to do it because they live on deposits and they are afraid that if their godown is pledged and marked with a board and depositors come to know of it they might withdraw the deposit money.

Mr. Shroff.—I suppose, Sir, you are also aware of the fact that loans are obtainable on what is called negative lien. I have myself arranged for loans with banks on this basis where only a deposit receipt is passod by a mill company and a letter is addressed that the bank will have a negative lien on the stock.

President.—This statement that so far as the companies are concerned invariably loans can only be raised with two signatures from banks is now too general?

Mr. Shroff.—I consider it too general and vague, and we challenge it.

President.—The only question is where a pledge is given or hypothecation is given, whether a second signature is required and apparently on this simple point of fact there is considerable difference of opinion.

Mr. Kapadia.—May I make a practical suggestion? From our point of view this is most important. Supposing the Board finds that the industry should be protected for a period of, say, 10 years, then the Board may make a suggestion that they are of the opinion that this sort of buying, selling in addition to managing should go. But inasmuch as these things cannot go unless a reasonable time is given to the industry to adjust itself, the position may be reviewed after, say, three years by the Government or the Legislature, and if the Government or the Legislature on a review of the position came to the conclusion that the industry has been negligent in setting its house in order, then a section may be introduced in the Protection Act making themselves liable.

President.—A period of three years is too short a time.

Mr. Kapadia.—I am merely trying to indicate to the Tariff Board the practical aspect of the thing.

President.—Supposing the period of protection, assuming that it was for a sufficiently long period for the industry, was cut into two, that is to say protection was given for a particular period subject to a review somewhere during the pendency of that period with reference to this particular question, that is what you are driving at, are you not?

Mr. Kapadia.—Yes.

President.—Supposing, considering the actual circumstances we found that the initial period should bo somewhat longer than three years, then would you object?

Mr. Kapadia.—I wouldn't if it were six months or a year longer. What we are anxious about is that the industry should not be allowed to go on in the same old fashion as it has been doing.

Mr. Davar.—Government has given protection of a sort and promises were made and there was a great show about the merger scheme and wo thought it was going to bo successful and so we were passive thinking that they were making a really serious effort at re-organisation.

President.—When Government granted protection to the industry in March, 1930, it is perfectly obvious that Government regarded that that was going to be a sort of temporary shelter to the industry under which they could organise themselves. In the case of a big industry like the textile industry a period of two years is however too short: even if the best of intentions were present it would have been very difficult to re-organise in a period of two years.

Mr. Kapadia.—You are taking too liberal a view. Have the Bombay Millowners' Association ever pointed out to its members that the system of keeping interest in sales is a thing which has been condemned by the Tariff Board and that they should not do it? Has the Association ever cared to write about it to any one of their members?

President.—When you take a particular point like that and base your argument on that, then it is possible for me to give a reply and it is this: if you are simply taking the question of excess commission charged by managing agents without performing services other than management then

although it may be a very bad thing from the shareholders point of view, actually if you are going to look at it from the cost to the industry, that is to say the actual drain upon the cost of the industry, the removal of these excess commissions I don't think would make any perceptible difference. If you want really to reform the Bombay textile industry from the point of view of costs the substantial items that you have got to consider are labour and overhead charges.

Mr. Kapadia.—That is true, but what about the influence which it exercises on the industry?

President.—When the Government tells an industry that it is protected and it must therefore organise itself, what the Government means is that it must bring its cost down so that the burden could be removed. Probably we might raise this point later on. I want to get a clear idea about office allowance. It is perfectly clear that what is called office allowance is not a contribution towards the expenses of the company's staff actually at the mills.

Mr. Kapadia.—No.

President.—You admit that and I believe the Millowners' Association also admit that. As I understand it from a study of the managing agency agreements, office allowance is a contribution by the company towards the expenses of upkeep and accommodation at the managing agents office. Is that correct?

Mr. Kapadia.—No; it is something like an additional payment made to him.

President.—If I am a managing director and not a managing agent then supposing I am allowed Rs. 2,000 a month which is my personal remuneration, that is a different matter altogether. I keep a stenographer, I have got to keep a general clerk, I have got to have a room, I have got to have stationery for correspondence and postage stamps; I require Rs. 750 a month for these. If a Bombay company gives Rs. 2,000 a month for personal expenses and Rs. 750 as contribution towards upkeep of office, stenographer, office staff, stationery and stamps and so on, then to say that this Rs. 750 is additional remuneration is not a correct statement.

Mr. Kapadia.—The best way to understand the thing would be by a reference to the articles of association. Let us take the Hindustan Mills. It lays down in clause 2 that the remuneration of the said firm shall be as follows:—(*a*) a sum of Rs. 1,500 per mensem; (*b*) a commission of 10 per cent. per annum on the annual net profits of the said Company after making all necessary allowances, deductions, etc. (*c*) In calculating the net profits of the said Company for the purposes of the last preceding clause no deduction shall be made for depreciation, etc. Then they say "The same monthly allowance and commission shall be exclusive of and shall not include any remuneration, salary or wages which shall be payable to the bankers, solicitors, engineers, commission agents, dealers, brokers, officers, clerks, servants, workmen and other employees who may be employed by the said firm for or on behalf of the said Company, nor any rent, cost of postage, printing and stationery or other office expenses nor any travelling charges and expenses incurred by the said Firm in connection with the business of the said Company all of which remuneration, salaries, wages, costs, charges and expenses shall be paid by the said Company".

President.—I should like to have a copy of that.

Mr. Kapadia.—I shall let you have a copy.

President.—You state in your representation that this was a wartime creation. I find that in Calcutta it was in existence before the war and therefore I naturally concluded that office allowance originated in Calcutta, and looking up one of the Calcutta agreements, that of Messrs. Martin and Company, I find there a provision for office allowance. There it is stated the "The managing agents shall during the time that they shall act as the Managing Agents of the Company receive an allowance of Rs. 800 per mensem to cover postages, stationery and clerical work for cor-

respondence only and a commission of one per cent. on all sales (*i.e.*, bills for work done) and a bonus annually of $7\frac{1}{2}$ per cent. on the net profits of the Company as certified by the auditors of the Company ". That is what I understand as office allowance.

Mr. Davar.—There the idea is quite different.

Mr. Kapadia.—I might invite your attention to Appendix A to our replies where we set out full details (page 30 of the printed replies). We have prepared this Table from the agency agreements and articles of association of 57 or 58 companies and set out figures of office allowance in each case in the fifth column. If you will refer to the case of Kastoorchand Mills, item 28 on page 31, there is a provision of Rs. 12,000 to include rent, stationery, etc., then we come to item 45, Phœnix Mills, that is Rs. 18,000 to include rent, stationery, general expenses, etc. I have taken it bodily out of the agency agreement. Then take Shapurjee Broacha Mills—Rs. 24,000 to include rent, salaries; then take the Tata Mills—Rs. 14,400. Barring these three or four cases office allowance in all the other cases is a separate item of remuneration as such in addition to percentage remuneration.

President.—You raise the point that although office allowance by itself in the first instance is not a legitimate charge, you go on to say that it is a still less legitimate charge where there is a minimum commission. Is that your point?

President.—In the Calcutta agreements that I have seen I notice that there is one case where there is a minimum commission: it is definitely stated that no separate office allowance is chargeable.

Mr. Kapadia.—I have not come across any such case; that particular case of the Hindusthan Mills is typical of Bombay, and I have quoted names of representative concerns where such is the case.

President.—In that case all the expenses incurred by the company either in respect of staff and so on maintained at the mill or in respect of services performed on behalf of the mill company at the agents office are all met by the company?

Mr. Kapadia.—Yes.

President.—Supposing, it was necessary to set apart a room at the managing agent's office where one or two persons who are engaged in special works at the managing agents office have to work, if that happens all that would be met by the company?

Mr. Kapadia.—Yes. I will read out the clause from the New Great Eastern Spinning and Weaving Company's Articles of Association. This is more suggestive. " As remuneration for their services as Secretaries and Agents the Company shall pay to the said Secretaries and Agents the following allowance and commissions, that is to say:—(*a*) An allowance of Rs. 1,000 per mensem as an office allowance for supervision of and attention to, the Company's business (such allowance to be exclusive of all rents and salaries payable to any clerks or other servants of the Company which are not to be paid out of the said allowance but are to be paid by the Company." Then take the Moon Mills. It is a Company where the Managing Agents receive a commission on the basis of production. Still you will find that they get office allowance. I will read out the clause in this: " The said Company shall during the continuance of this agreement pay to the said firm by way of remuneration for their services as such Agents as aforesaid:—(*a*) working allowance of Rs. 3,000 per month; (*b*) a commission at the one pie per every pound of yarn cloth ". Then there is a sliding scale. This is exclusive of all other charges. I am citing this case in order to show that the practice of office allowance prevails not only in the case of those Companies where the Managing Agents receive commission on the basis of a percentage, but in those cases also where the Managing Agents get commission on production or on sales.

President.—If those clauses that you read out are representative then it is fairly clear that as far as Bombay is concerned, office allowance is not

what it is supposed to represent on the Calcutta side, but very largely and probably entirely an addition to the remuneration.

Mr. Kapadia.—I would say it is a surcharge to the Managing Agents commission. It is a self-inflicted surcharge. That is how I can describe.

President.—Where there is no minimum commission, that stands as a minimum commission.

Mr. Davar.—They get the commission *plus* this.

Mr. Kapadia.—There are other cases in which they get the minimum and office allowance.

Mr. Boag.—Was there no office allowance in the old agreements?

Mr. Kapadia.—No.

Mr. Boag.—You say it was a war time innovation.

Mr. Kapadia.—Yes. Take the case of Nagpur Mills which is an old concern and there is no office allowance. Take the case of Swadeshi Mills and also the Ahmedabad Advance Mills.

Mr. Boag.—What about the old Bombay mills?

Mr. Kapadia.—If you look at Appendix A to our replies, you will find that mostly they are cases of old concerns floated before the war.

President.—What page are you thinking of?

Mr. Kapadia.—Page 30 of our replies.

Mr. Boag.—Against some of these there is an entry.

Mr. Kapadia.—They got their agreements revised. Take the case of Thackersay Moolji and Company. In 1921-22 taking advantage of the prosperous times these people got their agreements revised and put in this thing.

President.—Where you leave this column blank, does it mean that there is no office allowance at present.

Mr. Kapadia.—Quite. There is one slight error which has crept in the case of The Meyer Sassoon Mills. We have stated that Rs. 12,000 is the office allowance. That is a mistake. On verification I find that the office allowance has been consolidated with the Commission. It was originally Rs. 24,000 and Rs. 12,000 office allowance. Recently the agreement was revised and the commission was raised from Rs. 24,000 to Rs. 36,000.

President.—On this very important question of the remuneration which the Managing Agent charge for services rendered other than as Managing Agent there is one important point to which I would like to draw your attention and that is this how far in respect of each of these various services, whether he buys cotton or stores or machinery or sells the goods, whether he effects insurance, in actual practice does the Managing Agent in Bombay charge the Company for these services at a rate higher than what would be charged if the Company were able to get these services independently. You see my point?

Mr. Kapadia.—Yes.

President.—There are two points of view that you can take with regard to that. You may take the general line. If the Managing Agent who is definitely in charge of the management of the mill is authorised under the agreement to perform all these various services for which separate remuneration is provided, then it is likely that system might present the Managing Agent with serious temptation to make profit at the expense of the Company. That is the general point of view. The other point of view is actually to what extent has the Managing Agent succumbed to the temptation provided by the system. To what extent can you give us actual information? When it comes to individual cases, we will take them in camera. What I would like you to tell us now is to what extent are the rates charged for these various services in Bombay mills now higher than what you would consider reasonable rates. That is rather a big question. We might adjourn now and meet at half past two. I will tell you precisely how I am going

to raise it. I am going to ask you to tell me with regard to purchase of stores what you consider a reasonable allowance on the price of stores, with regard to insurance what you consider a reasonable rate to charge for premia and similarly with regard to selling expenses. Then I have to ask also about outstandings. That is to say when the Managing Agent happens to be a selling agent, there is the likelihood of the Managing Agent allowing outstandings to get heavier and heavier. I want to ask you when we resume what you consider would be a reasonable proportion of outstandings in a fairly well managed mill. I shall take that up when we resume.

President.—The first point which I would raise is about insurance. You have made various references to this question of insurance. That is to say where the Managing Agent does insurance business for his Company as a matter of fact he does charge his Company more than the Company will incur if it has effected the insurance independently.

Mr. Davar.—What we say is this that if you insure directly with any fire insurance Company, you are given a certain amount of rebate as a matter of general practice. Here whatever rebates that are obtained are not credited to the mill but to the Managing Agents. That is one thing.

President.—What is the other drawback?

Mr. Davar.—The other drawback is that often these Managing Agents are acting as Agents for these foreign Companies. They will only insure with them and thus our indigenous enterprise suffers. That is our second objection and the third is that they have no choice of selection. Further they are not impartial judges of what Companies should be insured with in the best interests of the industry. If they are, that would be different. Here their own interests come into conflict.

President.—They are committed to a particular Insurance Company.

Mr. Davar.—I understand that there are certain Managing Agents whose principal business in connection with fire insurance is insuring with their own Companies. That is to say very little outside work they do.

President.—Let me take first the question of rebates. When a man is an Agent for an insurance Company, he effects insurance on behalf of his Company and for that as an insurance Agent he gets a certain commission. I take it that commission is calculated on the premia.

Mr. Davar.—Yes.

President.—What is the standard rate? Supposing for example the annual premium was about Rs. 10,000, what does an agent get out of that as his legitimate remuneration.

Mr. Shroff.—The commission fixed at present is 7½ per cent. of the premium.

President.—Is it your contention that when a Managing Agent acts as an insurance agent, that remuneration of 7½ per cent. on the premium which he gets as an insurance agent, the benefit of that or part of that ought to go to the Company?

Mr. Shroff.—Certainly.

President.—What is the ground on which you base that?

Mr. Shroff.—7½ per cent. commission is paid to Companies or brokers who canvas business. The mill company which has a large property to insure will be in a position to command favourable terms from insurance Companies. It places the Mill Company in a position not only to get this 7½ per cent., but a substantial rebate as well.

President.—I am coming to the question of rebate later.

Mr. Shroff.—You will have to combine it for this reason that Members of the Fire Insurance Association are supposed not to transfer what they obtain from their Association to their clients.

Mr. Rahimtoola.—Isn't there a sort of agreement executed by the Managing Agents of the Insurance Company with the Insurance Company itself?

Mr. Shroff.—I advisedly use the word 'supposed'. I will show you by definite instances that rebates have been openly transferred to the Company. Take the case of Bombay Dyeing and Weaving Company.

President.—Unless you are very keen, I should like to have these two questions, the commission and the rebate considered separately.

Mr. Shroff.—Yes.

President.—Supposing an insurance Agent or a Managing Agent got 7½ per cent. on the premium as remuneration for services rendered as insurance agent, supposing that stood by itself and there was no rebate given, would you contend that the Company ought to get that?

Mr. Shroff.—I don't know what service the Agent renders here.

President.—Look at it this way. Supposing it was not the Managing Agent, supposing it was an independent insurance Agent through whom insurance is effected, then you might get the benefit.

Mr. Shroff.—The Company doesn't need any Agent. They can go straight. The insurance Company will go straight to the mill Company.

President.—Is that the general practice?

Mr. Shroff.—It is the mill Company that commands patronage. The patronage is at the disposal of Mill Companies. When you examine us in camera, we will give you figures showing the rebate and commission received by the Managing Agents.

President.—Supposing I put it this way that a mill with 1,000 looms and 40,000 spindles is in a position to effect its insurance independently of any insurance Agent?

Mr. Shroff.—Certainly.

President.—You would say that?

Mr. Shroff.—Certainly.

President.—It is on that ground therefore that you say that the commission charged by the Managing Agent in his capacity as insurance Agent is a charge which the Mill Company might escape altogether.

Mr. Shroff.—Yes. I will draw your attention to another thing. Take the case of some mills which keep the major part of the fire risk to themselves. A Company like the Central India Mills are able to keep an insurance fund of not less than Rs. 42 lakhs.

President.—It is practically a reserve fund that they have created as insurance.

Mr. Shroff.—I don't mean to suggest that the Company should set apart so much amount.

President.—That is a special case. Let us take an ordinary case. I understand this practice of rebates is rather a recent one—I mean the scramble among insurance Companies.

Mr. Shroff.—The competition is much more in recent years.

President.—In order to get more and more business the insurance Companies are getting into the habit of offering substantial commission.

Mr. Shroff.—Yes.

President.—If as an agent of a mill Company I go to a Managing Agent who is also an insurance Agent and effect my insurance through him, the Managing Agent who deals with the Insurance Companies is able to take advantage of the present intense competition amongst the insurance Companies and gets in addition to 7½ per cent. a rebate calculated on the premium which the insurance Company offers him as a special inducement to effect insurance with that Company.

Mr. Shroff.—Yes.

President.—What is normally the kind of rebate that you would get?

Mr. Davar.—If you will ask any insurance man, a mill risk is generally considered a good risk.

President.—The mills provide fire proof and things of that kind?

Mr. Davar.—Yes, the mills do provide for these things. All sorts of fire appliances are installed in the mills. Every possible care is being taken by the Mill Managers to avoid risk of fire and generally mill risk is considered a good risk by insurance people. That is one thing. The intense competition amongst our Companies has recently gone so far that we have seen cases where 37½ per cent. of the premium is refunded.

President.—May I take it that is a very exceptional case?

Mr. Davar.—No.

President.—Supposing the premium that I am charged is Rs. 10,000?

Mr. Davar.—You get 1/3rd back.

President.—I get Rs. 3,000 back.

Mr. Davar.—Yes.

President.—In the case of a Mill Company effecting its insurance through the Managing Agent, the benefit of that Rs. 3,000 goes entirely to the Managing Agent.

Mr. Davar.—It has been admitted by several Managing Agents that they have not been crediting the Mill Companies with the rebate that they get.

Mr. Kapadia.—May I draw your attention to page 198 of the Tariff Board's Report, 1927, Volume II? Mr. Mazumdar put the following question: "As commission you get 42 per cent." and the answer given by Sir N. N. Wadia was 'yes', and Sir N. N. Wadia stated that he gave back to the concern all that. Later on this point was raised before the Fawcett Committee in 1929 when Mr. D. Batliwala explained to the Committee what his mills had done in the way of reducing costs. He stated to that Committee that his mills were in the habit of refunding all the rebates they got from insurance Companies. I have got that passage.

President.—Does Mr Batliwala represent the Bombay Dyeing?

Mr. Kapadia.—Yes. Mr. Batliwala went to the length of saying that even the commission which they got on the purchase of stores made in England through N. Wadia and Brothers was also refunded to the mills.

President.—I will come to that question later on. That I suppose means rebate and commoission together?

Mr. Shroff.—Yes. They are usually taken together.

President.—Supposing I am a mill Company and I am in a position directly to insure with an insurance Company making allowance for commission, rebates and so on, assuming that I get the benefit of all that, what would you consider a reasonable rate of insurance? Assuming the size of my mill is 1,000 looms and 40,000 spindles, my capitalisation is Rs. 45 lakhs. I get the benefit of the rebate and I get the benefit of the commission. Deducting all that from the premium that I am charged, what do you think is likely to be the portion of my premium on my capitalisation?

Mr. Shroff.—It varies from 4 to 6 annas per cent.

President.—The premium with regard to Fire Insurance Company is calculated on the capital value. Assuming that Rs. 45 lakhs is the capital value of the mills, supposing insurance is effected in the most economical manner, what do you think will be the charge? What I want you to tell me is this: give me what in your experience according to your knowledge of the market is a fair rate so that by applying that rate I can check the figures that I have received.

Mr. Shroff.—We are not insurance men. The usual rate is 4 to 6 annas per cent. on the capital value.

Mr. Davar.—It would not be safe to take our figure.

President.—I am assumiug you take a mill of that size with that capitalisation which is fire proof, which is adequately equipped, absolutely first class from the point of view of Fire Insurance.

Mr. Shroff.—We will get it from the proper channel and send it to you.

President.—You would not like to suggest 4 or 6 annas per cent.?

Mr. Davadar.—It is not our line. It will vary in each individual case according to the degree of supervision, management, internal organisation as well as according to the construction and equipment for fire extinguishing appliances and different conveniences, so that each mill may show different rates.

President.—Assume a mill which has first class equipment from the point of view of fire insurance. Buildings are insured, plant and machinery are insured; stock is insured. What is likely to be the reasonable rate of premium which the mill would be charged? Would you be able to get us figures?

Mr. Kapadia.—Yes.

Mr. Shroff.—Would it not be possible for the Millowner's Association to try and organise a co-operative body which could undertake the fire insurance business?

President.—As a matter of fact, the various ways in which combined arrangements may be made by mills in Bombay—that is one of the questions which the Board has under consideration.

Mr. Davar.—It was recommended by the Tariff Board in 1926.

Mr. Shroff.—Why not make a small start by keeping 25 per cent. of the risk?

Mr. Kapadia.—They have been saying that that scheme has been under their consideration for the last four years.

Mr. Davar.—They can create a fund for this purpose.

Mr. Kapadia.—I find on a review of the balance sheets that in those cases where the managing agents are interested as agents for insurance companies, the insurance has been placed for an amount out of all proportion to the necessities of the case. That is the other factor.

President.—What you mean really is that the expenses under insurance amount to a figure which is considerably in excess of the standard rate calculated on capitalisation?

Mr. Kapadia.—No.

Mr. Shroff.—What Mr. Kapadia means is that the capital is inflated for the purpose of insurance.

Mr. Kapadia.—Again the insurance business is being driven out of the country. I mean that insurance is being placed with a foreign firm merely because the managing agents are interested in them.

President.—Are not the managing agents interested in Indian companies?

Mr. Kapadia.—Very few. I will give you a list of managing agents who are interested in foreign companies. I have 15 or 16 names with me. I propose to give you a list to-morrow. You will find from that that the insurance is being definitely placed with foreign companies merely because the managing agents are the agents for those companies. That is disadvantage No. 1. The second disadvantage is that the managing agents appropriate the rebates to themselves. The third disadvantage is that I have found on a review of balance sheets that in those cases in which the managing agents are acting as agents for insurance companies, insurance has been placed for an amount which is out of all proportion to the necessities of the case.

President.—So that if the fair value of plant and buildings and so on is Rs. 45 lakhs, the managing agent insures it for Rs. 75 lakhs.

Mr. Shroff.—Something like that. The figure may not be exact.

President.—Not the scale but the idea of it?

Mr. Shroff.—The idea is absolutely correct.

Mr. Kapadia.—In recent years the value of the block has considerably gone down of mill companies. If the block stands in the balance sheet at Rs. 50 lakhs, there is no reason why it should be insured for Rs. 50 lakhs. It can be insured for say Rs. 40 lakhs. If the whole block is destroyed by fire, the insurance company is not going to pay Rs. 50 lakhs in full. Merely

because the block stands at Rs. 50 lakhs in the balance sheet, that is no reason why it should be insured for the whole amount. Where the managing agents are not agents for insurance companies, they have insured the property on a conservative basis.

President.—What are the other points?

Mr. Davar.—That is one additional point. They are induced to over-insure unnecessarily.

President.—When I ask for figures, it does not mean that I agree with you, but I only want to get a clear idea of the position.

Mr. Kapadia.—If you want me to prepare a table showing the disparity I shall do so. It is very difficult, as you know, to bring home such a charge, but you can see for yourself from a comparison of the figures that the amount for which the property is insured is out of all proportion to the necessities of the case and when we question them, we meet with a rebuff saying "these are all internal matters and you have no right to poke your nose".

President.—You must question them respectfully! I come to the other points. With regard to the purchase of cotton, I take it that your suggestion is that there are speculative transactions in cotton, as a result of which it is found cotton is bought in unnecessarily large quantities periodically. If there is any profit on a speculative transaction, the managing agent gets the benefit of the profit.

Mr. Davar.—We have not committed ourselves to any such definite statement.

President.—What is your point?

Mr. Davar.—First of all, our representation says that many times they over purchase, that is to say more than they need for one year. Secondly there have been cases where they have speculated and incurred a loss.

President.—Your main point is that cotton is being bought as a result of this kind of speculative transactions in unreasonable quantities with the result that interest charges accumulate. Is that your point?

Mr. Kapadia.—Not only do interest charges accumulate but when prices go down, the mills are obliged to suffer depreciation in the value of what is left at the mill.

President.—As a result of speculative transactions, larger quantities are often bought than the mill requires on a reasonable computation with the result that (1) the amount of working capital is unnecessarily large and interest charges go up and (2) when there is a drop in the price of cotton, the mill has to suffer depreciation in the value of cotton. These are the two points. The other is a minor point altogether, *viz.*, if there is any loss on these speculative transactions, it is debited to the company whereas if there is any profit, it goes to the managing agent. You don't say that this does not occur in a great many cases, but you don't make it a matter of complaint. That is not one of your allegations?

Mr. Kapadia.—We have not alleged that.

Mr. Shroff.—Now we do suggest that hedging should be resorted to by mills. Some of the mills have entered into speculative transactions and have suffered losses.

President.—If they do undertake these speculative transactions then the consequences of those transactions to which you object are these. That is right?

Mr. Shroff.—Yes.

President.—What do you consider as the normal quantity of cotton to be purchased at a time by a mill under a reasonably efficient management? If they bought three months' requirements at a time, would you consider that a normal thing to do?

Mr. Shroff.—With such facilities as there are for the purchase of cotton in Bombay, it is not absolutely necessary that the mills should go in for 3 months stock.

President.—I will tell you the difficulty that I feel. It is very difficult to bring a charge of this kind home because of the way in which cotton prices vary from time to time. It does make this demand upon the man in charge that he must exercise his judgment at a particular time. Sometimes, he is able to use his judgment correctly and sometimes wrongly. Judgments of that kind, you don't put them down to deliberate malpractices?

Mr. Shroff.—We want to encourage the use of discretion and judgment. All that we say is that the risk which may follow in consequence of an error of judgment would be eliminated, if not entirely, at least to a great extent, if smaller amounts are purchased at a time.

President.—Supposing there was a reasonable possibility that if you bought a sufficiently large quantity of cotton at to-day's prices you might be able to obtain your requirements for the whole year at a reasonable price, don't you think that in the discharge of your responsibility, you should do it?

Mr. Shroff.—I don't think so. If there is a sufficiently developed market for the companies' manufactures here, then it will be all right. Now you are only looking at one side of the transaction.

President.—That is rather interesting. What is the usual period for which forward transactions in finished goods are done?

Mr. Shroff.—That is all irregular and haphazard.

President.—About two to three months?

Mr. Shroff.—I think that it is sometimes longer also. What I suggest is this. Organised facilities of the same order which you get for purchases in the cotton market do not obtain in the case of manufactured goods.

President.—If I could undertake forward transactions in piecegoods for a period at the most of three months, then for me to undertake forward transactions in raw cotton for a period of one year would be undertaking a somewhat ill balanced transaction?

Mr. Shroff.—Yes.

Mr. Kapadia.—May I draw your attention to an item in the balance sheet of one of the most well conducted mills—stores and cotton at cost Rs. 1,55,000. Such mills, without flattering the management I may say, are making their cotton purchases during the last 4 or 5 years on such an economical basis that these mills have consistently shewn good results even in times of depression. It is because during the last three or four years several mill agents have gone long that the mills have had to suffer tremendously.

President.—What is the reason for their going wrong?

Mr. Kapadia.—I know of cases where the managing agents earlier in the day visit cotton brokers. They go to their office. They think that prices have fallen and say to themselves "why not go in for three months' purchases" and thus they go on buying. Rates have tremendously fallen and the mills are obliged to suffer loss, whereas in the case I have cited, the managing agents have been most conservative on their purchase of cotton and whenever they buy cotton, they buy it with such an amount of caution that those mills under their charge suffer very little.

President.—The real reason for the loss sustained during the past year or two is that the market for raw cotton—you might say ever since 1929—has been a market of falling prices?

Mr. Kapadia.—Yes.

President.—But I suppose from now on we might count on a different condition of things.

Mr. Shroff.—The better course would be this. If mills go in for small amounts in the absence of facilities to sell their manufactured goods, it is a policy which in the long run will benefit them most.

President.—Through parity purchases?

Mr. Shroff.—Yes. I know the difficulties which the up-country mills have but I am now talking of Bombay mills.

President.—The Bombay mills have to buy?

Mr. Kapadia.—Yes, even there are mills which have gone in for 22 months stock.

President.—That is exaggerated prudence.

Mr. Kapadia.—Even in the case of up-country mills, there is no reason why they should not enter upon a judicious regime. We have found that certain mills situated in Nagpur have not at all hedged.

President.—They don't hedge?

Mr. Kapada.—I don't think so. The evidence on record shows that they do not.

President.—I do not like to go into this question of hedging because the facilities for hedging and the precise policy adopted are all matters of such acute controversy—and they have been enquired into over and over again—that I personally am not in a position to come to any conclusion in regard to that question. For the moment I should like to leave out the question of hedging and discuss the question on the basis of the reasonable scale on which forward transactions in cotton can be undertaken.

Mr. Shroff.—If you are going to rule out the question of hedging for the present at any rate, I think that it would be very desirable to restrict purchases to short terms.

President.—That is the main point?

Mr. Shroff.—Yes. With regard to the other point—that is an important item in the cost of production—it would be very pertinent for the Board to enquire as to how purchases are made by the managing agents. Do they ever care to consult thĕir Board? Do they care to submit to their Board full particulars? Is the Board properly posted with information? It is only when a big loss occurs that the managing agents get a resolution of approval passed.

President.—The point on which you want the managing agent to consult their Board is the scale on which forward transactions or operations are to be entered into. You are not thinking of the quality?

Mr. Shroff.—No.

President.—Is there any other point you want to urge in this connection? Have you anything to say about brokerage?

Mr. Shroff.—I suppose that when you are analysing the costs of several mills it is possible that you will have certain cost shewn against cotton, which cost strictly speaking is not the cost of the material but includes sundry items.

President.—What are the items? Supposing I get a particular figure as the cost of cotton delivered at the mill I take it that it might include two perfectly legitimate items. I am looking at it like this. Supposing I have before me the cost of cotton delivered at the mill at a particular period say in 1931. Now there is the market quotation for that class of cotton at that time. To that I have to add obviously the town duty. I have to add the cess and I have to add also a certain amount of brokerage and transport. Is there anything else to be added?

Mr. Shroff.—You mean by transport muccadam?

President.—What does the muccadum do?

Mr. Shroff.—It is his business to get the whole thing weighed and convey it to the mill.

President.—So that transport would be included?

Mr. Shroff.—Yes.

President.—What about brokerage?

Mr. Shroff.—As we have pointed out in our replies, there is a practice with certain mills that the Broker who enjoys the patronage of a mill returns every six months or 12 months half the brokerage he has earned on the purchases made for the mills and this is not returned to the mill. I know of one definite instance where I ascertained at a company meeting as to

what happened to the returned brokerage. That company informed me that the practice did not prevail with them but they did not dispute the fact that this was the practice. If half the brokerage returned by the brokers was credited to the mills, it would go towards the reduction of the cost of materials.

President.—In order to get some idea as to the brokerage could you give me as a percentage figure a reasonable rate?

Mr. Kapadia.—The mills being large purchasers of cotton here also they are able to dictate terms to the brokers.

President.—In the case of a mill, for example, which makes about 30 lakhs pounds of cloth it must get cotton more or less corresponding to that figure; if a mill was producing on that scale, according to the conditions prevalent in Bombay what would be a reasonable rate of brokerage to be charged?

Mr. Shroff.—It varies with the mills, but I think the lowest charge is 4 annas per candy and it may go up to a rupee. These are facts which are very easy to get and we can submit the details to you.

President.—I should be very glad to receive the information from an independent source.

Mr. Kapadia.—Another point is that the Millowners' Association has not carried out the recommendation of the Tariff Board that the managing agents should not operate in cotton on their own account: "the managing agents will be well advised, in their own interests, to employ brokers who do not operate on their own account and who are not themselves in actual possession of cotton". That was the definite recommendation of the previous Tariff Board and they have not carried that out.

President.—What I want to do is to post myself with the kind of suggestion which I can transfer to rupees, annas and pies.

Mr. Kapadia.—From that point of view this recommendation is of far greater value. With regard to brokerage, certain mills have house brokers. There are one or two groups of agents in Bombay who have appointed let us say X as house broker: all purchases are to be made through that broker. If I am a cotton broker and if you are a managing agent and X is the house broker, if I come to you with a sample of cotton and say "this is Cambodia fine cotton, I have got 50 bales; this is the sample; this is the rate" then if you want to strike a bargain you will say "I am prepared to buy your cotton provided my house broker Mr. X approves of it". Then I must please the house broker if I want to put the transaction through.

President.—Are there many house brokers: would you call that a general arrangement?

Mr. Kapadia.—I know the facts. I should say that at least in two groups covering six mills there are these house brokers.

President.—We don't want to make observations in the Tariff Board report unless these observations are justified by a sufficiently large number of cases.

Mr. Kapadia.—The Tariff Board can enquire from the Millowners' Association whether these house brokers are employed or not. These house brokers don't favourably report on the cotton if they are not sufficiently pleased; that is at the bottom of the whole thing.

Mr. Boag.—With regard to this mucadamage what is the normal charge?

Mr. Shroff.—I don't think we shall be in a position to tell you straightaway what it is, but I can tell you one thing, namely that one of the biggest business going on in Bombay is this mucadamage.

Mr. Boag.—You can't translate it into rupees, annas, pies?

Mr. Shroff.—If you are keen on getting figures we can let you have them.

Mr. Boag.—I should like to have some sort of an idea.

Mr. Shroff.—We can give you this information.

President.—Is this mucadam a permanent employee of the managing agent?

Mr. Shroff.—He is paid a certain rate per bill.

President.—Does the same mucadam for example work for two managing agents?

Mr. Shroff.—More than two.

President.—On the question of selling agency I take it your point is that where a managing agent is also a selling agent there is a strong temptation for the managing agent to allow outstandings on goods sold?

Mr. Kapadia.—That is ono of my points.

President.—Is there any other point connected with the selling agency?

Mr. Kapadia.—The general complaint is that the managing agent is not concerned with the question whether his obligations are properly performed or not, wherever his duty and interest clash.

President.—Supposing he does not perform his obligations what precisely is the kind of adverse circumstances which the mill has to face?

Mr. Kapadia.—Contracts are cancelled.

President.—What is a selling agency? The selling agent, I am told, in Bombay is a person who has got two responsibilities, first to see that the person why buys piecegoods performs his contract, that is to say accepts delivery: the other thing is that he has got to see also that he pays for the goods that he buys. That is to say, his obligation is first to see that the contract is performed and secondly that payment is made.

Mr. Shroff.—That is the function of a guaranteed broker.

President.—I am told that the guaranteed broker guarantees payment. Every selling agent is a guaranteed broker but every guaranteed broker is not a selling agent. It is these two functions that the managing agent undertakes when he is also a selling agent. What are the evil results which flow from this?

Mr. Shroff.—One general observation I want to make is that the fact of the managing agent acting as selling agent for his company has provided a lever for finding another source of income, and not only source of income but source for raising capital for himself. We have heard it said several times that it is the managing agent who finances a concern: I am going to show you that by acting as the selling agent it is the managing agent who obtains finance for himself because of his dual capacity as managing agent and selling agent.

President.—What is claimed for the managing agent is that he provides finance out of his own resources or out of finances from other people who have confidence in him.

Mr. Shroff.—I am very glad that the mill agents have admitted that.

President.—I have described a selling agent in respect of his functions. If these are the two functions of the selling agent and the managing agent happens to be the selling agent, tell me precisely as far as the selling operations are concerned how exactly the mill company suffers.

Mr. Kapadia.—In those cases in which the managing agents are interested in the selling agency care is not taken to see that the company is not obliged to pay commission on sales effected direct. Every company has got certain Government contracts from the Indian Stores Department and, as you know, companies have recently opened their own shops and are effecting sales direct and one would expect an independent managing agent, if he had no interest in the selling agency, to lay down as a condition in the selling agency agreement that where goods are sold direct by the company the selling agent would not be entitled to any remuneration. Whereas you will find that in those cases I know of in which the managing agent is interested no such precaution has been taken.

President.—The point is this: supposing, for example, a mill company sells to the Indian Stores Department or sells direct to the consumer, in

those cases the managing agent is not performing any services in his capacity as selling agent, nevertheless the usual commission is charged; is that the point?

Mr. Kapadia.—Yes, that is the point. The managing agent is entitled to commission on all sales effected by the company where the managing agent has interest in the selling agency.

President.—There of course no particular service is performed by the selling agent.

Mr. Kapadia.—The other point is about the realisation and I think you have understood it sufficiently.

President.—Of the two this is the bigger one: then there is a third one.

Mr. Kapadia.—You know the selling agency agreement contains a clause with regard to cancellation of contracts.

President.—On what conditions?

Mr. Kapadia.—If the company has not delivered goods which are to specification then buyers will insist that the contract will be cancelled or if the company is not in a position to deliver goods within the prescribed time mentioned in the contract then the buyer will be entitled to say "I shall not take delivery". These are the sort of conditions and obligations which the company or the selling agent has to observe. I put it to you, sir, as a general proposition whether, when a managing agent is interested in a selling agency, there is any chance of these obligations on the part of selling agents being loyally and faithfully performed in the interest of the company? In this case the selling agent is the managing agent himself; he is the author of the act and he is the judge and you cannot, as human nature goes, expect the managing agent to stretch a line in favour of the company at his cost.

President.—That transaction is of the same nature as payment on goods sold, that is to say, the buyer has got to fulfill certain kinds of conditions; if the buyer does not pay or the buyer does not fulfill other conditions, in either case the selling agent being the managing agent himself has not got sufficient inducement to enforce the conditions: that is what it amounts to?

Mr. Kapadia.—Yes.

President.—Your point is that the failure of the selling agent under those conditions to enforce the obligations of the buyer upon him results not merely in heavy outstandings but also in certain other things?

Mr. Shroff.—I will give you a specific instance of what happens. In the case of one mill goods were sold to an up-country merchant. Some dispute arose about the goods: the up-country merchant said he was not bound to accept the goods. The agents who were acting as selling agents conveniently changed the contract into consignment sale and naturally the mill was led to show a loss.

President.—It was an outright sale?

Mr. Shroff.—Yes.

President.—It was converted to consignment sale?

Mr. Kapadia.—Yes. The point is that all sorts of juggleries are played when the managing agent is personally interested in the transaction.

President.—The question that I want to raise is this: all these various undesirable consequences flow from any system, according to your contention, under which the managing agent performs services other than that of managing agent: Supposing you had a managing director with an independent Board of directors, is it not likely that your managing director in the matter of buying, selling, effecting insurance and so on might lapse into the same kind of conduct?

Mr. Kapadia.—No. He is a paid man under the observation of the directors whereas the managing agent is virtually the master of the Board of Directors.

President.—That is the whole difference?

Mr. Shroff.—And the articles will lay down that the managing director will not be allowed to make himself interested in any other business.

President.—He would not be obviously interested but if you have managing directors for a big concern which has an annual turnover of 30 or 40 lakhs of rupees of the class like the managing agents you are thinking of, then it is quite likely that the same consequences will follow.

Mr. Davar.—Then the board of directors would dismiss him if one or two cases are discovered against him: the board of directors has the power of dismissal.

Mr. Shroff.—There may be abuses but they will be of a rarer kind as you have in England.

President.—What you mean is that a managing director holding his office subject to good behaviour will be more amenable to advice?

Mr. Shroff.—He will have a shorter term of office, say two years or at the most five. Every time you have to revise the agreement the shareholders can raise their voice. There will be meetings not six monthly or nine monthly as you have now in the case of the Bombay mills, but weekly.

Mr. Davar.—At present the supervision exercised by the directors is very poor; in one case they had four meetings in the year and meetings are never held more than once a month in any concern.

President.—The next point I want to raise is this: the point has not been made quite clear to me by your representation or by your replies. You have just now stated that the main difference in all these matters is that the Managing Agent is very much more remunerated. That is the whole difference. Therefore I should like to know clearly what is the kind of control that under the present system is actually exercised or can be exercised over the Managing Agent. I take it there are two aspects to this question. There is first the question of control which the Directors can exercise over Managing Agents. There is secondly the question of the control which the shareholders can exercise over the Managing Agents. You have told us generally that the control of the Directors is a nominal control, ineffective.

Mr. Davar.—Because the Directors, a majority of them, are under the influence of the Managing Agents.

President.—Take the case of a typical mill and give me the number of Directors.

Mr. Kapadia.—9 is usually the maximum. I have got a table showing the names of Directors of Cotton Mills in Bombay.

Mr. Boag.—Of all the mills?

Mr. Kapadia.—Something like 55 to 60 mills. Unfortunately I had no time to tabulate this finally, but the draft is fairly accurate as I myself have checked it. (Shown the statement.) Take Mill No. 1.

President.—How many Directors are there?

Mr. Kapadia.—6 Directors. No. 1 is a member of the Agents firm. No. 3 is a member of the Agents firm. No. 4 is a member of the Agents firm. No. 6 is a special Director and also a member of the Agents firm. It is a first class mill. Out of the remaining 2, No. 2 is an Agent who has a share in the Managing Agency of a concern in which the Agents are the Managing Agents and I would not call him an independent Director.

President.—Semi-independent.

Mr. Kapadia.—I would not call him semi-independent. These are people who are prepared to register the decrees of the Managing Agent. The other gentleman is also there but he is also to a certain extent connected with the Agents.

President.—Take another mill.

Mr. Kapadia.—You have placed your fingers on a concern which is more or less a proprietary concern.

President.—Take the very last. How many Directors are there?

Mr. Kapadia.—No. 1 is a member of the Agents firm. No. 2 has got nothing to do with the Agents firm. No. 3, a highly respectablo gentleman has got nothing to do with the Agents. No. 4 has got nothing to do with the Agents. No. 5 has got nothing to do with the Agents. No. 6 is a member of the Agency firm.

President.—2 out of 6?

Mr. Kapadia.—There are good Directorates and bad Directorates.

President.—Would you consider that case exceptional?

Mr. Kapadia.—I would not consider this case as exceptional. What I want to tell the Board is out of the 190 or 200 gentlemen who occupy Directorships in Bombay, 115 or 120 gentlemen are in one way or another connected with the Managing Agents. I had no time to get this list ready. If the Board wants it now that I have very nearly finished it, I would be only too happy to give you copies.

President.—I consider this point rather relevant. If we are considering the question of Managing Agency in the light of the fact that the alternative to it is a Managing Director, the point which is really of consequence is to what extent can control be exercised over the Managing Agents as compared with the Managing Director.

Mr. Kapadia.—In this concern (shown) there are 4 Directors. The first gentleman is a member of the Agency firm. The second gentleman is also a member of the Agency firm. The 3rd gentleman attend Board meetings regularly and he ceased to act as a Director. It is only when we questioned the information leaked out, and the fourth gentleman although not a member of the Agency firm is a shareholder of another Company of the Managing Agents which is doing financing business. We have pointed out this fact with regard to the resolutions of the Board. Now that we are on this point, I will explain to you the whole point which we want to place before the Board. The articles lay down that interested Directors shall be counted as quorum. Now visualise a case where interested Directors are to be counted as part of the quorum. In such cases the so called resolutions of the Board would really be the resolution of the one or two independent men on the Board. The fundamental principle that the company should have the benefit of unbiassed judgment of each Director whom it pays is not observed in practice. What I am trying to point out is that such articles do not afford any protection to shareholders when Directorates are made up in this way.

President.—By an "interested Director" you mean a Director who happens to have a personal interest in a particular question before the Board.

Mr. Kapadia.—Yes. Therefore take the case of a Company where there are 4 Directors. The Articles lay down that 2 Directors will make a quorum, but that interested Directors will be considered part of the quorum. I am a Director and if it is proposed to grant a loan to me say of Rs. 5 lakhs, although I am interested in the matter, I will assist in the formation of the quorum and you who are not interested can say "I pass that Mr. Kapadia may be granted this loan". The whole resolution will be carried by the vote of one if two Directors are present. I have concrete instances to show that.

President.—What is the usual rule about it? Do "interested Directors" have a right to form a quorum?

Mr. Kapadia.—There is a legal authority which lays down that interested Directors shall not form a quorum.

President.—What do you mean?

Mr. Davar.—There is an English ruling.

President.—That is a decided case.

Mr. Davar.—Yes. Interested Directors are not entitled to vote and are not to be considered as part of the quorum. But the authorities do not go to the extent of holding that when the articles themselvos lay down

that interested Directors shall be considered as part of the quorum, such provisions would be legally invalid.

President.—It does not override the article.

Mr. Kapadia.—Quite. I have quoted names of Companies where the articles lay down that interested Directors shall be counted as quorum with the result that resolutions can be carried by the vote of one Director.

President.—Is that English ruling generally accepted by our Courts?

Mr. Davar.—It has been followed. (Handed in).

President.—That is as far as the control of the Directors over the Managing Agents is concerned. What about the control of the shareholders over the Managing Agents? To what extent can shareholders influence the appointment of Directors?

Mr. Davar.—Not at all.

President.—I find that the Tariff Board suggested in 1926 that if difficulties were felt in regard to the Managing Agency, the obvious remedy for the shareholders would be . . . .

Mr. Davar.—I will just explain the provision of law and how they manipulate the articles. If you will look at the articles, you will generally find some articles say that a certain number of Directors will retire by rotation.

President.—What is the usual provision?

Mr. Davar.—1/3rd.

President.—If it is 6, 2 people will retire.

Mr. Kapadia.—2 will have to retire by rotation and they may stand for re-election.

President.—They offer for re-election?

Mr. Kapadia.—Yes. If the shareholders like, they may be elected or they may be dropped out, but it seldom happens that if the Directors stand for re-election the shareholders are able to throw them out. Again it is generally very difficult to get proxies because only 7 days notice is prescribed. We get the report, we get the balance sheet and all that. Suppose that we find certain irregularities and we want to set them right. We however find that the period allowed is very short to get the majority of people to be present at the meeting and to vote. Besides that, if we want to substitute somebody as a Director in place of the retiring Director we have to give a specific notice that we are going to move a resolution to that effect.

President.—You get a notice of 7 days before the meeting.

Mr. Davar.—7 clear days.

President.—Supposing you object to one of the Directors who are offering for re-election, what kind of notice have you got to give?

Mr. Kapadia.—I have to write a letter to the Managing Agents saying with reference to the Director's Report, please note that I shall move the following resolution at the forthcoming meeting, *viz.*, that Mr. X may be appointed as a Director of the Company in place of Y. That notice has to be given 8 or 10 days before the meeting. If the balance sheet is in my hands only 7 days before the meeting, how is it possible for me to conform to that condition.

President.—Is that an accurate statement?

Mr. Kapadia.—Yes.

President.—The management sends you notice only 7 days before the meeting. If you have got to make a suggestion with regard to a Director to be appointed in place of the retiring Director, you have got to give 8 to 10 days notice?

Mr. Kapadia.—Yes, I am very clear on the point. See, for example, Article 100 of this Company (Western India Spg. & Wg. Co., Ltd.).

President.—That particular rule is really under the Articles of Association.

Mr. Kapadia.—Yes.

President.—There is no legal provision at all. The Companies Act says nothing.

Mr. Kapadia.—As a matter of fact Companies Act does not contain any provision with regard to the appointment, retirement and removal of Directors.

President.—Any Company can have its own rules?

Mr. Kapadia.—Yes, it can have its own Articles. The article in question lays down that no person not being a retiring Director shall unless recommended by the Directors for election be eligible for election to the office of Director at any general meeting, unless he or some other member intending to propose him has, at least 7 clear days before the meeting, left at the office in writing duly signed signifying the candidature to the office or the intention of such a member to propose him. Thus you see we have to give a seven clear days notice and the words "7 clear days" are intended by the statute to mean that you must accept the date of the notice and the date of the meeting.

President.—As a matter of actual practice, you can do that sort of thing by anticipation.

Mr. Kapadia.—We lay ourselves open to the charge that we send a notice of the removal of X without knowing what Mr. X had done. We will lay ourselves open to that charge. They will say "you are trying to remove X without actually having in your possession the Directors' Report and seeing what Mr. X had done. You are prejudieed against him".

Mr. Davar.—There is another point. If there was not that clause entitling the shareholders to remove the Directors and replace them, they can stay there for life. There is nothing in the Companies Act which gives them the power to remove them. It is through the mercy of the Articles of Association that we have this much power.

President.—The position is that if you have a Company with 6 Directors, then every year you have got the right technically of electing two Directors.

Mr. Davar.—Yes, provided the Articles are there.

Mr. Kapadia.—There are 2 or 3 Directors who won't retire at all. That is the other side of the picture.

President.—The two are nonchangeable and permanent.

Mr. Kapadia.—I should say even 3.

President.—This rule of 1/3rd rotation would be calculated on 6, so that out of that 4, 2 would be off.

Mr. Kapadia.—Yes.

President.—Supposing 2 out of 4 offered for election with regard to this it would be necessary for you to give notice of fresh nomination practically before the notice of the general meeting reaches you. That is the position?

Mr. Shroff.—That we have stated clearly in paragraph 35 of our first representation on page 20. We have set out the facts very fully there.

President.—As a matter of fact you have sent us a great deal of literature on the subject. I thought the best way was to discuss these things.

Mr. Davar.—In place of those Directors who retire or die during the year, vacancies are filled in by Managing Agents. They co-opt, but they cannot be removed by the shareholders.

President.—What happens to them?

Mr. Davar.—They continue.

Mr. Kapadia.—I may explain that if a Director vacates office by reason of his death . . . . .

President.—Supposing a man is due to retire in August, let us say he resigns from the Board in April, the Directors co-opt a person in his place, then has he got to retire at the time when the other man is due to retire.

Mr. Kapadia.—That is not compulsory. His appointment has got to be confirmed by the meeting. That is what is provided for. He might not retire.

President.—He does not retire. He sits there and you confirm his sitting.

Mr. Kapadia.—There are articles which provide that he should retire. Some articles provide that he should retire. Some provide that he need not retire, but the articles generally provide that he must be confirmed.

President.—As a matter of fact most of the points which you raised in your representation as well as in the note really arise from the question of Managing Agents rendering services other than as Managing Agents. Since we have discussed this question, I need not raise the details. But there is a point that you make in your representation and that is about the question of more information.

Mr. Shroff.—Yes in the balance sheets.

President.—I have no particular criticism to offer about the further information that you require in the balance sheet. That is to say the fixed capital should be shown under various heads and investments should be classified and so on. When you go on to make suggestions about the profit and loss statement, I am beginning to wonder whether you are really asking mill Companies in India to furnish information which would be of very material advantage to their rivals.

Mr. Kapadia.—I very strongly object to nondisclosure and for this sound reason. If you review the balance sheets of Mill Companies, you will find that some details are given in every profit and loss statement.

President.—A certain amount.

Mr. Kapadia.—The details which are not given are those of which they don't want that the shareholders should know anything. For example office allowance and mill establishment charges are lumped together.

President.—Supposing a particular Company does not issue a profit and loss statement, what really happens is a summary of the profit and loss position is included in the balance sheet.

Mr. Kapadia.—No.

President.—Not even that?

Mr. Kapadia.—The profit and loss account is a special account . . . .

President.—The details of which are issued along with the balance sheet. Sometimes you find that a summary of the profit and loss position is included in the balance sheet in which you don't get details?

Mr. Kapadia.—The balance sheet will only show what profit has been brought into the balance sheet. It is the Directors' report which states that the Company during the year has made a profit or loss. But the details of the profit or loss can only be seen from the profit and loss account.

President.—Don't you think that as a business man it would be fairly easy for you, if you saw the details of the profit and loss account, to make a shrewd guess of the minimum price at which the Company can sell its goods?

Mr. Kapadia.—No. That is a misapprehension. Take the case of cotton. Let us say that the cotton consumed is Rs. 16 lakhs and odd. Now if this information is given, how does it help the competitor unless he knows the actual quantity of the various kinds manufactured?

President.—It is very easy to calculate. If you had the slightest knowledge of prices during the year, you could calculate.

Mr. Kapadia.—It is not the profit and loss account which imparts the information. There are other things which impart that information.

President.—If you can get the prices realised of a particular company and if you know the amount they have paid for their cotton and you know the prices of cotton, you can get a shrewd idea as to the amount of cotton purchased and you can also get a shrewd idea of the amount of goods sold.

Mr. Kapadia.—I have broken my head for the last five years and I have not been able to do that for this reason. Supposing Rs. 14 lakhs on one side shows the cotton consumed and Rs. 35 lakhs on the other side shows

cotton goods manufactured. I do not know the varieties of cloth manufactured and I do not know the different prices of these varieties. Unless I get these prices it is impossible for me to know how the mills fare.

President.—I have bought Rs. 16 lakhs worth of cotton during the year. I have sold Rs. 35 lakhs worth of piecegoods. Now it is obvious that the cotton that I purchased during that year did not form the whole of the raw material out of which my piecegoods were made but I know from Rs. 16 lakhs approximately what it cost me to buy cotton. Would that be right?

Mr. Kapadia.—No, because Rs. 16 lakhs has been put down after making a lot of adjustments. It may be that the mills have made two or three lakhs profit on speculative transactions, over the actual price or the mills have suffered two or three lakhs of loss, and the speculative loss may have been included in the Rs. 16 lakhs.

President.—What are the details that you have?

Mr. Kapadia.—We have set them out in our replies.

President.—Will you please refer me to the page in which you have set them out?

Mr. Kapadia.—See page 25, where we say "that the following items of expenditure should be shewn separately".

President.—Take item (iv) electric power consumption. If I know anything about the textile mill industry, the electric power consumption would give me the output.

Mr. Shroff.—It is given to-day in several profit and loss accounts.

Mr. Kapadia.—It is given in almost all profit and loss accounts on the Bombay side.

President.—What I want to know is why do you want to make the position worse?

Mr. Kapadia.—I have given the Board a set form. (Pointing from a balance sheet.) These are the items shewn and there are others which have not been shown.

President.—These are the things that you want to be shewn?

Mr. Kapadia.—Yes.

President.—You want to know their coal and fuel consumption and you want to know their power consumption.

Mr. Kapadia.—These are the things that are given.

President.—What I am suggesting is this. We are competing with one of the most skilful producers of piece-goods in the world. You are an enormous researcher. I should like you to undertake this subject for research. Do you know whether the Japanese textile mill companies publish profit and loss statements? Does any Japanese company ever publish a profit and loss account? I want you to enquire into that.

Mr. Kapadia.—No, it does not. Even many English companies do not publish profit and loss accounts, but that is not the point. What I have been trying to point out is that there are certain details which have been omitted from the profit and loss account by certain mill companies while others give these details. Take the balance sheet of a very well known concern (Phœnix Mill). Look at the full details which the Company has given and this Company has never argued that it is suffering from competition merely because these details are given.

President.—Do you think that it is absolutely impossible?

Mr. Kapadia.—So far as we have been able to see, it is very difficult unless further information is forthcoming.

President.—The only point that really presents difficulties in making a calculation as to the level of costs obtained by the mill is the particular proportions in which different kinds of cloth are made?

Mr. Kapadia.—Yes and therefore there is nothing in the point about rivals benefiting.

President.—Supposing you take a typical Bombay mill, there is generally a certain proportion of leading kinds of cloth which are made. Is not that so? It is not so very difficult. Take for example the high grade dhoties, 60s, 70s and 80s. It is only very few mills that do that. If you know that those dhoties are made in Bombay in such and such a proportion and plain grey goods are made in such and such proportion, can you not get a fairly shrewd idea?

Mr. Kapadia.—You can get an approximate idea. In these days it is impossible not to know them. Technical experts have their own Associations and they exchange notes.

President.—Have you seen these notes?

Mr. Kapadia.—They have their own clubs where they discuss amongst themselves.

President.—It is a thing which is very well understood that nothing relating to costs is exchanged.

Mr. Kapadia.—What I have been trying to point out is that these profit and loss statements are issued by the Bombay Mills for the last 25 years and not a single Bombay mill has complained that by publishing profit and loss accounts in this way it is suffering.

President.—This is not a very valid argument. The extraordinary menace of Japanese competition is a very recent development. When you have acute trade depression and people are very anxious to sell their cloth in the Indian market at whatever price they can fetch, it seems to me that at that time to ask the Indian mills to give more information than the rivals ordinarily give may probably be to make an unfair demand. I am speaking quite tentatively.

Mr. Kapadia.—There is some force in your argument, but there is the other side.

President.—There is a good deal more than you think.

Mr. Shroff.—I admit that there is much force in your argument. But I would say that the withholding of information according to our experience has encouraged inefficiency. Why not take a specific instance—the item of coal and fuel. I can say definitely this. We compared this item of coal and fuel of one mill with other mills having a similar capacity and we got the agents to appoint experts to look into it because we found the charge of coal and fuel was about 25 to 30 per cent. higher than in other mills with more or less similar capacity. The result was that within the next 12 months, after the experts had reported, the mill was able to show a substantial reduction. Only last week we were discussing the balance sheet of a Bombay mill where we detected that the item of stores and dyeing and bleaching charges were considerably in excess of what it should be taking the capacity of that particular mill. We have taken up the point with the Agent and we might succeed in getting the charges reduced. There might be some leakage somewhere.

President.—I am not by any means an expert on company practice but I do feel that while it is in the interests of shareholders that more information should be supplied by companies themselves there is to my mind another aspect of the question which is also very, very important and the shareholders, if they take a far-sighted view must not ignore that aspect. I may be wrong but I do think that in these days of very acute competition the difficulties facing the industry should not be forgotten. There is no industry in this country which is faced with this kind of competition. On top of that, if you are taking Bombay, there is such an amount of internal competition and there is no other industry in which there is so much internal competition. The shareholders in a particular company may have various grounds of complaint against their management. They may be perfectly legitimate grounds. But there must be certain restraints observed in these matters in the publication of information in the general

public interest. That is all I am suggesting. I may be entirely wrong in the view that I take.

Mr. Shroff.—May I suggest one thing! I submit that it would be a retrograde step for the mill companies now to withhold any information that they have been giving up till now. If you allow the fear of disclosing trade secrets. . . . . . .

President.—Not the fear of disclosing trade secrets but the fear of disclosing information which might enable your rivals to know at which price level they can afford to dump?

Mr. Shroff.—We submit that we do not see how the actual cost of production can be got at from these figures.

President.—But you can make a very shrewd guess.

Mr. Kapadia.—I should like to develop the point which Mr. Shroff mentioned. Let us take a concrete case. I found one mill with 790 looms and another with 1,150 looms. I found from the profit and loss account that the mill having 790 looms spent Rs. 1,83,000 over electric power and coal whereas the mill having 1,150 looms spent only Rs. 1,84,000. We wrote to the Company having 795 looms and quoted the figure of the other mill having 1,150 looms and asked them as to how it was that this mill had to pay nearly Rs. 1,84,000 although its capacity compared with the other mill was much less. We have come across cases of leakage.

President.—Do you know the actual number of working spindles?

Mr. Kapadia.—Yes.

President.—Not merely their capacity but the actual working spindles?

Mr. Kapadia.—Yes.

President.—In both cases?

Mr. Kapadia.—Yes, and their realisations.

President.—You may see how they compare?

Mr. Shroff.—Cloth and yarn realisation in the case of the Company with 797 looms is about Rs. 23,67,000 and in the case of the mill with 1,150 looms Rs. 30,09,000. The realisation as we point out here is 100 to 112. We have assumed that both the mills have worked to full capacity.

President.—That is what you have assumed?

Mr. Shroff.—That is not disputed by the agents.

President.—That would not be disputed by the agents. The full capacity and the working capacity do not agree. That is a point on which errors may take place.

Mr. Kapadia.—We are by reason of details put on notice and enquiries for information are made.

President.—What is the legal obligation with regard to profit and loss account?

Mr. Davar.—Nothing.

President.—Is there some kind of section?

Mr. Davar.—It is in the Articles of Association they provide.

President.—Does not the Companies Act say anything?

Mr. Davar.—Nothing. You can take it from me that that is so. In the Articles of Association they do not generally prescribe that the balance sheets and profit and loss accounts should be prepared in such and such forms.

President.—The obligation arises from that?

Mr. Davar.—Yes. In England also it was so, but they have altered the position.

President.—In what direction?

Mr. Davar.—By making it compulsory. In England not only have they made it compulsory but they have suggested various headings. We have followed the English Act of 1908.

President.—Is there any mention of a profit and loss account?

Mr. Davar.—Nothing. Only the balance sheet is mentioned. The form is the prescribed form and there is no provision for showing the details.

Mr. Rahimtoola.—Can you tell us how many mills are giving you profit and loss accounts?

Mr. Kapadia.—I think almost all.

Mr. Rahimtoola.—Then what is the complaint?

Mr. Kapadia.—The complaint is that several inconvenient details are not given.

Mr. Rahimtoola.—You have shewn us the case of one company which gives all the details enumerated by you.

Mr. Kapadia.—We want details according to the standard laid down by that Company.

Mr. Rahimtoola.—How many of the present mills give you profit and loss account in that form?

Mr. Kapadia.—This is the only Company against which we have nothing to say. There are however other companies which give details for about 18 items and lump the rest.

Mr. Rahimtoola.—Can you not get some explanation from the annual meetings?

Mr. Kapadia.—I may tell you that the Agents very often give us the information but when they find that the information asked for is inconvenient to give, they decline to furnish it.

Mr. Davar.—Sections 32 and 35 of the Companies Act relate to the balance sheet.

President.—If you want to have any recommendation on this question you might not get it from us because we are ignorant of this question.

Mr. Kapadia.—We merely put it before the Board thinking that it might be useful.

President.—There is only one other point that I want to raise. There are two or three matters that arise from your replies to the questionnaire in answer to question 12. The last statement you make on that question is " We cannot favour the imposition of a duty on raw cotton. . . . ." Am I right in thinking that your position is this: supposing it is established on the evidence before the Board that the retention of this duty is going to be of advantage to the Indian cultivator, even in that case you would advocate its removal?

Mr. Davar.—So far as the Bombay industry is concerned the Tariff Board recommended in the last enquiry that it should use Uganda and American cotton and manufacture superior kinds of cloth. If you want them to do that practically this duty will have to go.

President.—The existence of the duty on the raw material does not necessarily mean any burden on the industry if suitable protective arrangements could be made.

Mr. Shroff.—In that case we will have no objection.

President.—Coming now to your statement in answer to question 31 with regard to the general rate of interest in fixing a fair selling price for the industry, we have got to include interest on working capital, and if we are going to provide for protection over a fairly long period it would be necessary to take a particular rate as the rate suitable. What in your opinion would be a reasonable rate of interest to take for the purpose of granting protection to the industry?

Mr. Kapadia.—As you are aware, the bank rate in India is considerably higher than what it is in England and specially in Japan.

President.—I know the rates of interest are higher but considering the level of rates of interest here what would be the reasonable rate of interest to take?

Mr. Shroff.—I would not take anything less than 7 per cent. because the average Imperial Bank rate has been in the neighbourhood of 6 per cent.

President.—Assuming that the rates are going to be on a moderate scale hereafter?

Mr. Shroff.—That is an assumption after all: we have great industrial possibilities lying before us.

President.—In any case you don't fancy anything less than 7 per cent?

Mr. Shroff.—No.

President.—Most of the points that you raise in your replies to the questionnaire really arise in connection with the main points we have discussed but there is one other which I ought to mention in fairness to the Board. In one or two places you have rather made a suggestion that it was rather an omission on our part not to have sent out questionnaires to individual mills. I can explain the position by saying that we sent copies of our questionnaire to individual mills but we have not so far received one reply; the last Tariff Board I believe also sent copies of questionnaire to individual mills but they received no reply from the mills, so that it is no lack of good intention on our part. The point is, unfortunately the Tariff Board is not a statutory Board like the American body and we have no right of compelling people to give evidence and if anybody says "I can't give evidence" there is an end of it. It is an unfortunate position and it is for the legislature to consider whether for the tariff to be effective there ought not to be some modification. At the same time I must say in fairness to the Bombay Millowners' Association that they have shown the utmost readiness to supply us with information.

Continued on 23rd August, 1932.

Mr. Davar.—Sir, with reference to the last point you made yesterday namely that you sent questionnaires to a large number of mills asking for various information and that they were practically ignored, this raises a very serious point that these mills are regardless of supplying information in respect of facts in connection with this enquiry which is being conducted in their interest. They are asking for protection and at the same time will not give you information that is necessary for the purpose of this enquiry. This clearly shows that there are a large number of mills who simply want to take advantage of protection without shouldering the responsibilities of proving their case. This makes us naturally think that some sort of machinery should be set up to take action in cases like this. Here is the Millowners' Association which has given you all the information it can, but it says it is not responsible for mills which are not its members. You send out questionnaire to these different mills but they don't answer; they are not even within the jurisdiction of the Millowners' Association. Now, the protection which you might recommend out of public taxation will be enjoyed by these outside renegades, and therefore it is for you to think out a formula by which they could be brought to book. You can call them like witnesses by summons and then compel them to furnish information. Unfortunately you tell us that you have not got the powers to do that. That makes the position still more serious. We submit, therefore, that either in your report when you give protection you make the period of investigation as to whether your recommendations are carried out very short or at least specify a certain period which is as short as possible—taking

into consideration the fact that sufficient time should be given to the industry and so on—and at the same time recommend the introduction of something of a penal nature, that is to say penalise those mills by a special tax who do not carry out your recommendations.

President.—I may tell you what we think of it. A case of that kind arose in connection with the enquiry that we did six or seven years ago. It was tho Cement industry. As you know, there are only a small number of units engaged in the cement industry, and one of the most important units engaged in this industry refused to appear before the Board and refused to supply the Board with any information. Fortunately for the Board in that case one of the recommendations made was that part of the assistance should be given in the form of a bounty and the Tariff Board in its report recommended that the bounty should be withheld from this particular company. The position is wholly different in this case, but I am prepared to admit that this is a problem with which the Tariff Board is being continually faced, and speaking for myself I believe the time has come for the Tariff Board to make a definite suggestion to the Government of India and the Legislature as to the most suitable steps which can be taken for the purpose of meeting situations of this kind. I am prepared to consider the suggestion that you have placed before me and my colleagues and see what can be done when we submit our report. This is all I can say at the present stage.

Mr. Davar.—It is suggested by some of my colleagues that we should press tho Board to recommend to the Government of India in their report that the Indian Company's Act should be amended. If you do that, that would be one step in advance. But knowing as we do the present engagements and worries of Government we havo doubts whether in a year or two it would be possible for Government to institute enquiries to amend the Company's Act and even if Government expedited it, it would take at least four or five years; they would have to appoint a roving commission and it will have to be an enquiry of a prolonged character.

President.—What is the suggestion you would make?

Mr. Davar.—Our suggestion is that something of the nature of excise taxation may be considered by you. I appreciate your fear, sir, that the industry in that case is likely to be driven out of British India to the Indian States. But we havo come to the conclusion that this fear is not of such a serious nature as to offer you any serious obstacle. There will be two types of mills, those carried out by good managing agents who will carry out your instructions and obey what the Board orders in return for the protection the Board is pleased to recommend. The other group will consist of those managing agents who are obdurate and about them only you can possibly have any fear that they will migrate. We submit, sir, let them: one advantage will be that the diseased limb will be chopped off from the body. The advantage is that they can't compete successfully from the Native States with our managing agents in British India who improve themselves because by the improved nature of organisation and by doing away with all these various defects that are present now, they will reduce the drain and thereby reduce cost of production. They will improve their position and will be in a position to compete successfully with mills within the Indian States.

President.—This suggestion of excise duty has been made to us in another connection by people who have sent in representations. The broad proposal before us is that a small excise duty should be levied on the products of Indian textile mills for the purpose of creating a fund for the development of the handloom industry. An excise duty in that connection has been proposed and is under consideration.

Mr. Davar.—That will be levied on all, the good and the bad.

President.—What I mean is this. Supposing the Board considers that there is a case for levying an excise duty on all products, if you cannot get sufficient fund for the development of the industry by levying an excise

duty only on the recalcitrant mills, the question of the excise duty is already before us, and we have got to consider it and we are prepared to take into account the suggestion that you have made.

Mr. Davar.—Thank you sir.

Mr. Rahimtoola.—I think that this point may be dealt with in a little more detail. I suppose it is not the intention of your committee to say that having regard to the fact that non-association mills have not supplied the costs asked for by us, that it vitiates in any way the conclusions that may be arrived at by the Board?

Mr. Davar.—No. I am talking about their conduct and the inference one can draw that they are people who are prepared to take advantage of the protection but not prepared to assist the Board which is sitting to consider whether they deserve protection.

Mr. Rahimtoola.—We drafted the questionnaire in such a manner that those who are members of the Millowners' Association need not send us separate statements if they so decide because the Millowners' Association represents their case. The association was asked to furnish statements of cost of five mills of different groups in order to enable us to get an idea of the general character of the progress which the mills have made in the management of individual groups of mills who are members of the Association. We were informed that the Millowners' Association of Bombay alone has on its list of members 101 mill companies. Therefore as far as the Board is concerned they are in a position to judge fairly the progress of the industry. You are, I suppose, only confining your criticism to the non-Association mills to whom we sent separate questionnaires but from whom we have received no replies.

Mr. Davar.—Quite so.

Mr. Rahimtoola.—I have read very carefully your representation and the replies to the questionnaire and everything that you have sent us. Broadly speaking I would like to divide it into three separate heads. The first head I would call 'Protection'.

Mr. Davar.—Yes.

Mr. Rahimtoola.—The second head I would like to put is the reform in Management.

Mr. Davar.—Yes.

Mr. Rahimtoola.—And the third broad head is the amendment of the Companies Act.

Mr. Davar.—Yes.

Mr. Rahimtoola.—Taking the first head, I would like to ask you a few questions regarding your Association. Will you please tell me when your Association was started?

Mr. Davar.—November 1928.

Mr. Rahimtoola.—You told us yesterday that there are altogether 630 members on your list representing I take it different Companies in the shape of shares.

Mr. Davar.—Shall I make this point clear? We may be 600 and odd members, but I hope the Tariff Board will take notice of what our influence has been from what we have done in the past. I will give you one specific instance. We made a certain movement last year against the Imperial Bank in connection with certain points. If you look at our 600 members, you will find that unfortunately a very small number of Imperial Bank shareholders are on the list of regular members, but when we made the movement, within 4 days we could collect proxies of 8,000 votes. If you multiply that by 4, you will see how many shares we have represented. 4 shares make one vote. I am going to show you one point particularly, because we have been constantly confronted with the question how many members we have got. We have got naturally to infer from that that the number of membership to a certain extent would influence you as to our

importance or influence. Therefore I want to bring out the other side of the case, *viz.*, that with small membership made up of Imperial Bank shareholders, we could command the votes of 32,000 shares within 4 days.

Mr. Boag.—What proportion of the shares of the bank would that be?

Mr. Shroff.—⅓rd from the Bombay registry. You must recognise our difficulties in this case that the Imperial Bank has the policy of holding what are called general proxies. Some of the proxies were signed as late as 1921.

Mr. Davar.—We had no time and we had only 4 days notice. If we had time, we would have done better. That will show you the influence which we can exercise on the class which we represent. That is all and nothing more.

Mr. Rahimtoola.—I think you have anticipated what I was going to say but you have not put it in the manner in which I want to understand it clearly. As far as your Association is concerned, you just now admitted and I think it is a fact that the stake of the members of your Association compared to the shareholders of the different Companies is very little—practically nil, especially when you say 4 shares in a concern like the Imperial Bank made one vote.

Mr. Davar.—8,000 votes. That means 32,000. Many of them do not belong to the Association. The rest came from outside.

Mr. Rahimtoola.—My point is this that though there is only a small amount of capital—that too divided amongst your different members—represented by your Association, yet I understand from the point of view that you have put forward that you wish to represent the investing public. That is the stand you wish to take up apart from the membership of your Association, is that correct?

Mr. Davar.—Yes.

Mr. Rahimtoola.—You say that by the influence your Association exercises on the investing public you are able to get a large number of proxies.

Mr. Davar.—Yes.

Mr. Rahimtoola.—But that proxies are not sufficient at the present juncture to command the majority of any Company.

Mr. Davar.—No, that we won't admit.

Mr. Kapadia.—Take the case of Alcock Ashdown and Company under the agency of Messrs. Turner, Morrison. We had a Committee of Inspection appointed by the majority of our votes. I moved an amendment that a Committee of Investigation be appointed before the Directors' Report could be adopted. We got the proxies and we got the amendment passed by a majority. A Committee of Inspection was appointed and a report was made. Unfortunately I haven't got a copy here. If you like, I will send copies to the Board later. You will find that that report was appreciated by the Directorate with the result that the Directors passed a series of resolutions for the purpose of putting the Company's house in order. They took on the Auditor whom we suggested and they took on a Director whom we suggested. It is only in very large scale Companies where shareholders are situated all over India that we find it often difficult to get the three-fourths majority. So far as the power of the majority is concerned, there are cases where the Association can make a very good show. Where the three-fourths majority is involved, it is rather difficult. Even Directors or Managing Agents often find it difficult to obtain three-fourths majority if they want to amend an Article. Take the case of Tata Construction where they declined to transfer the shares to my name. I agitated from without and brought to light certain secret agreements made between the Managing Director and the subsidiary Company. We agitated

with the result that the affairs of the Company have now very much improved and all those agreements have been set aside and now agreements modified.

Mr. Davar.—Even in the case of the Imperial Bank, the Imperial Bank has seen that here is a body which wields considerable influence with the share investing public with the result that the Chairman in his speech at Madras has recognised that fact. The Shareholders' Association is a pioneer institution. It was not known in Bombay or any other place in India and the difficulties which a pioneer has to face in the early stages of a movement are there. We are trying to feel our way. That is all that I can say.

Mr. Davar.—Even in the case of Imperial Bank, if we had more time, better results could easily have been obtained. This year if we had to make a fight, we have no doubt that we would have commanded a majority of proxies.

Mr. Rahimtoola.—I want to ask you in this connection regarding shares. Yesterday I think Mr. Shroff disputed the statement that the majority of shares in different Mill Companies are held by the Managing Agents.

Mr. Shroff.—Certainly I do dispute that fact.

Mr. Rahimtoola.—May I know whether you have made investigations into this matter?

Mr. Shroff.—Yes.

Mr. Kapadia.—When that statement was made before the Tariff Board by the Millowners' Association, I was here and that made me go to the Office of the Registrar of Joint Stock Companies. Unfortunately during the short time at my disposal I was unable to do much, but I will place before the Board the results of my investigations into the list of shareholders of 2 or 3 companies. We might keep the names secret. I will give you the names on a piece of paper. (Handed in). They are fairly well known concerns. I find the capital of that Company is Rs. 6 lakhs divided into 6,000 shares of Rs. 100 each and I find that there are 500 shareholders. The latest summary of shareholders filed in the Registrar's office showed that there are about 500 shareholders. These figures are very approximate. I have counted the names, that is to say 6,000 shares are divided among 500 persons. The Managing Agents hold 83 shares. The Directors with the exception of one Director more or less hold qualification shares and the largest individual shareholder is our member, *viz.*, Mr. N. Lalluchand who owns 500 shares is our member. Mr. Dunk who holds 300 shares is also our member. Mr. Ishwandas Lukhmidas, late Sheriff of Bombay, who holds 93 shares is our member. Similarly many more shareholders of this Company are our members.

Mr. Shroff.—On this point let me point out to you exactly the difficulties of a Shareholders' Association. People sympathise with the movement, but do not openly come out and become members for the fear that they might be persecuted by the Managing Agents.

President.—How can the shareholders be persecuted by the management?

Mr. Shroff.—The Cotton Broker of a Mill Company would not like to be a member of the Shareholders' Association for the simple reason that he will be persecuted by the mill Agent and I have come across instances of that kind myself. The Selling Agent would not like to be a Member, because the Managing Agent would persecute him. If I am allowed to amplify this point there is a group of mills in Bombay consisting of 4 mills very well known to you. The Cotton Broker is a very wealthy man and he happens to be holding 40 to 45 per cent. of shares in one of the concerns. As a matter of fact for the past six months he has been privately asking us to make a move in the matter. He has a very large stake in one of the mills and of course we have tried to persuade him to be a member, but naturally he has his own difficulties.

Mr. Rahimtoola.—That is the very reason why I made that point very clear at the beginning that you do not represent the members alone, but you represent the investing public generally.

Mr. Shroff.—Certainly.

Mr. Rahimtoola.—I think that is the stand which your Association wishes to take.

Mr. Kapadia.—Then these 500 shareholders of this Mill Company. (List handed in). You can glance through the list. That is the latest summary of 1932, it shows that large shareholders of the Company are our members. Then I will cite another instance. Unfortunately I could not get sufficient time to obtain all the information from the Registrar's office on this point. It is rather difficult to search papers in the Registrar's Office. Then you will find the other Company in the same group has 4,000 preference shares and 7,500 ordinary shares. There are about 800 ordinary shareholders. So far as the preference shares are concerned, out of the 4,000 shares, 2,863 shares stand in the name of the Maharajah of Morvi. So it cannot by any stretch of imagination be argued that the Managing Agents hold the bulk of the capital so far as the preference shares are concerned. There are 7,500 ordinary shares and the number of shareholders is 800 and the Managing Agents hold 341 ordinary shares.

Mr. Boag.—Out of 7,500?

Mr. Kapadia.—Yes. Of course one or two members of the Managing Agency firm hold 75 shares. They might hold them in their individual capacity. So far as the Managing Agency's holding is concerned, it is 341 shares. Then I can cite to you confidentially series of cases in which the Managing Agency's holding is very small. Since 1923 Managing Agents who have been in the know about the position of the industry have been unloading the shares on the stock exchange like anything. I know it for a fact that parcels of shares have been unloaded on the stock exchange by the Managing Agents who are in the know about the correct position of the industry and if you will look at the Directors' holdings, they generally hold qualification shares.

President.—Tell me precisely what is a qualification share?

Mr. Kapadia.—Under the Articles of Association certain qualification is prescribed such as the Director shall be bound to hold shares of the face value of Rs. 5,000 or Rs. 10,000. Those qualification shares in some cases do not belong to the Director but they belong to the Managing Agents. That is why we have suggested that the Director should declare that the shares which stand in his name are his own and that he should be punished in case the declaration is found to be false.

President.—But the minimum qualifications for the Directors are very low.

Mr. Kapadia.—Very low generally.

Mr. Rahimtoola.—As regards the point raised by Mr. Shroff that though you have great sympathy from the public, it is the influence of the Managing Agents in some shape or form that prevents the public either from becoming your members or coming out in the public and making statements about the feeling which they have regarding the particular Company; is it not a fact that this very influence has been most beneficial to the Company itself in obtaining its finance?

Mr. Kapadia.—Yes, it is because of the patronage that the Managing Agents wield, they are always in a position to hit us.

Mr. Rahimtoola.—Therefore this kind of influence which they possess is sufficient to obtain finance. The question about finance is one of the things which have been put before us is very difficult for the Company to obtain unless the Managing Agency system prevails and it is by their standing, influence and position that they are able to command finance which is necessary for the Mill Company.

Mr. Kapadia.—At what cost to the industry, that is the point. Take the case of a selling agent. He may be the best friend of the Managing Agent and may like to part with Rs. 10 lakhs for the purpose of assisting the Managing Agent. But at what cost to the shareholders? He will say: "Give me a share in this and give me a share in that".

President.—If I ask you to make an estimate in a case where the managing agent has advanced money to the Company, let us say, at 6½ per cent., actually taking all the charges into account—by charges I mean various commissions and so on which the managing agent is able to get—as to what this 6½ per cent. loan would really cost the Company, could you do so?

Mr. Shroff.—That estimate we have not made. That question is impossible to answer because our main contention is that all these are separate profits, the amount of which is impossible for anybody outside to assess.

President.—I want only an approximate estimate. Take the assessable items. For example, supposing the managing agent is interested in the selling agency and also in the buying agency and all that the managing agent has been able to get because from the financial point of view he has a strict hold on the company. If he advances money at the nominal rate of 6½ per cent. and if to that are added various practices which are done by the managing agent in his capacity as selling or buying agent, what I should like to know is whether you are in a position to give me from such cases as you know what the actual cost is?

Mr. Shroff.—It is impossible.

President.—As a matter of fact I tried to make some calculation and I don't feel it is impossible. I tried to do it and I have far less knowledge than you have.

Mr. Shroff.—If you are having all the selling agency, there is a direct profit in the shape of commission on sales. There is also the possibility of indirect profit which we see is being made in the shape of undue extension of credit. Generally the arrangement is that the money must be paid in 15 days after the goods have been taken delivery of and considering the turnover of the goods. . . . . .

President.—He had to make payments in 15 days and let us say he took 30 days. Now that can be calculated definitely because it really means an extra interest for 15 days.

Mr. Shroff.—It is impossible to say what credit is given.

President.—I am sorry to stress the point. The contention has been made definitely that as things have turned out, the primary service rendered by the managing agent is finance. If it is admitted that the managing agent is an indispensable factor in the matter of provision of finance, then it seems to me that the relevant factor in considering that question is what it is that finance really costs under those conditions and therefore it would help at least for illustrative purposes to know what the extra cost is.

Mr. Kapadia.—I will give you the best example in this connection. You know the muddle into which the Sholapur concern was put by the Managing Agents. The two Calcutta financiers who came to the help of managing agents exacted a lot of concessions in consideration of their offer to finance the concern. I have got before me a copy of the letter written by these financiers to Mr. Ratansey and which was subsequently confirmed by Mr. Ratansey and put before the Court in order to convince the Court that the mills had secured working capital. One of the terms is

> "In consideration of the partnership you to advance in your name to the Sholapur Mills a sum of Rs. 20 lakhs at interest at 7 per cent. payable half yearly, on security of pledge of debentures of the face value of Rs. 18 lakhs out of the debentures of Rs. 70 lakhs issued by the Company and on further security of Stores and all stock in process from mixing room to the point it leaves the weaving loom and cloth

of the value at market rates of at least Rs. 2 lakhs. The said amount shall be payable as follows:—

As the pledged debentures are redeemed (the proceeds or) the redemption amount will be paid over to you in reduction of the amount. When all debentures have been redeemed the balance of the amount advanced by you will be paid off and all subsisting securities returned. You shall be entitled to sell the debentures with the previous consent of the Company. The Company shall be entitled to release any on payment to you of their value at par in reduction of the advance.

In consideration of that the selling agency was offered for 20 years under the following terms:—

2. Selling Agency:—

(*a*) A selling agency agreement to be entered into between the Sholapur Mills Company and yourselves appointing you selling agents.

(*b*) The agreement to be for a period of 20 years."

Now the Sholapur concern until the time when it came into this situation or difficulty had no selling agent. The Sholapur products are very well known; they have a market in the vicinity of Sholapur. Up to that time all the goods manufactured were sold without difficulty and no selling agents were needed. It was because the managing agents found themselves unable to finance the concern that they took a Marwari gentleman as a selling agent.

President.—Supposing I said in reply to that you had taken the case of a mill which certainly found itself faced with circumstances which to a very large extent impaired its credit—a sudden development which destroyed the confidence that the depositors and others had in the stability of the industry. Now necessarily when the credit of an industry or a particular company is suddenly impaired in that way, the price that you will have to pay for money is very high.

Mr. Kapadia.—There is no getting away from the fact that the managing agents are a well reputed firm with old established connections. Having found themselves unable to finance the concern, they had to obtain finance for that concern on those terms. There is no getting away from that.

President.—May I say in pursuance of that where extraordinary transactions of this kind take place, extraordinary commissions and charges are levied. It is largely in the case of managing agents whose affairs have got suddenly tangled, that is to say, in the case of managing agents whose finances have become exceedingly difficult, that extraordinary developments of this kind take place. It is not a normal feature.

Mr. Kapadia.—I will, with very great deference to you, demur to that.

President.—I will tell you precisely what is in my mind. Having read your confidential note carefully, the feeling came to me—I don't say the conviction—that most of the cases to which you have referred are cases where the financial standing of the managing agents as a result of certain exceptional circumstances got considerably impaired and it was in those cases that an extraordinary scale of commissions was levied.

Mr. Kapadia.—To a certain extent you are right. But you have to analyse the root cause of the trouble. In one voice the managing agents say "we are responsible for finance; we arrange for finance". We come before you and put before you instances to show that that claim is very much exaggerated. We give you instances of a large number of mills where managing agents have failed definitely to finance their concerns and have been obliged to resort to various devices and methods for the purpose of obtaining the necessary finance for their concerns.

President.—Supposing during the past 5 years the managing agents had dropped out, would anybody else have financed?

Mr. Kapadia.—Yes.

President.—Considering the depression through which Bombay has passed?

Mr. Kapadia.—Supposing this concern was in the hands of somebody else 5 years ago, it would have been absolutely self supporting. There was nothing intrinsically wrong with the concern. It was because the managing agents failed to finance, that the concern was in trouble.

Mr. Davar.—Depositors began to withdraw because the financial position of the managing agents was impaired.

Mr. Shroff.—The claim of the managing agents that they arrange finance has to be examined from the case of the Sholapur mills in a particular light. The root cause of the difficulty of this mill came from this that the managing agents failed to maintain a certain reasonable proportion between the paid up capital and their fixed block account. They went on increasing their block value partly out of the reserves built out of profits but mainly and substantially out of large deposits, short term deposits, which were obtained from the public. They were advised time and again. I am told that Mr. Narottam Morarji, two or three years before his death, when he went and placed the case of the Company before a firm of Chartered Accountants, in London, was given the same advice which was given here by some of his friends that with a paid up capital of only Rs. 8 lakhs to have a block account running to Rs. 1½ crores was something which was not sound.

President.—That I think is a perfectly valid point. May I say in answer to that: Supposing I take into account for the time being entirely the Bombay section of the textile industry and, accepting the figures given in the Banking Enquiry Committee's report as to the proportions in which the finances of Bombay mill companies are being got from various sources, I calculate that if there is a mill in Bombay with a fixed block of Rs. 45 lakhs, about Rs. 36 lakhs of that would, according to the proportions given in the report of the Banking Enquiry Committee be met from share capital and debentures.

Mr. Shroff.—That should be the case.

President.—As far as Bombay mills are concerned the position is reasonable? Would you accept that?

Mr. Shroff.—Yes.

President.—The position is different in Ahmedabad.

Mr. Shroff.—I will give you another instance where similar difficulties would have cropped up if the situation was not handled wisely, I am referring to the case of the Central India Mill. The Agents and Directors of the Company about ten years ago made an issue of Rs. 50 lakhs of 5 per cent. free preference shares and brought up their paid up capital to nearly Rs. 1 crore—Rs. 48 lakhs ordinary and Rs. 50 lakhs extra preference shares, issued in good time when the shares were at a premium. They consolidated the finances of the Company in that manner. A similar advice was tendered to Sholapur Mills.

President.—I don't dispute that proposition. You are perfectly right that where the bulk of a Mill company's capital—fixed capital—is being met out of short term deposits, then obviously the credit of that mill company would be damaged. There is not the slightest doubt about that. I am not inclined to dispute that.

Mr. Shroff.—The claim of the managing agents that they arrange for finance which partly comes out of their own resources and partly out of their ability to make arrangements elsewhere I submit must be judged also by the results. If there are grave errors of judgment on the part of the managing agents of this character, they should be taken into account.

President.—Would you accept this statement that as far as the Bombay mills are concerned, if it is true that 80 per cent. of the fixed capital expenditure is being met out of share capital and debentures, the general financial position cannot be described as unsound?

Mr. Shroff.—I know there are cases similar to that of Sholapur Mills in Bombay also.

President.—I am not speaking of individual instances. Leave them alone.

Mr. Kapadia.—With regard to the question of managing agents arranging for finance, I have come across a typical instance which is worth while, stating in order that the Board may have full facts. I find that this mill (showed the name of the mill to the President and Members of the Board) in April 1930 borrowed Rs. 3 lakhs from a Bank on the security of stocking trade. The mill borrowed another sum from the same Bank and its title deeds were deposited. The three lakhs which was borrowed was against stocks. Granting that the managing agents of the Company had signed the promissory note as they contend, they do, what happened? After 4 months, the block was mortgaged by the issue of debentures with the result that the managing agent got themselves relieved of the guarantee. Therefore the Board should go to the length of ascertaining whether the managing agents are not doing all they can to relieve themselves of their guarantee by pledging the block and creating debentures. During the last two or three years instances have come to our notice which show that in order to relieve themselves of their guarantee they are pledging their block for the purpose of obtaining working capital. This mill company is a very well known concern which obtained its finance from a Bank for its working capital by pledging its title deeds and its stock in trade in April 1930.

President.—If the finances they got on that basis were not sufficient and they had to raise more money, what else could they do?

Mr. Kapadia.—They paid off the Bank by issuing debentures.

Mr. Boag.—I cannot see what is the objection?

Mr. Kapadia.—The obvious inference is this: The previous advance to the Company carried the managing agents' guarantee; but the managing agents got themselves relieved of their guarantee by raising debentures.

Mr. Boag.—Surely they put the mill in a much sounder position?

Mr. Kapadia.—All that I am saying is this. The managing agents say "we guarantee". But the moment they find that they are capable of relieving themselves of that guarantee, they do that even by mortgaging the Block. Thus the claim about supply of finance is at any rate very much exaggerated.

Mr. Rahimtoola.—That does not meet my point. Whenever finances are needed for the mill for its working capital, the guarantee is there if it is needed. But you are stating an instance where the guarantee was not needed. From that it does not follow that the managing agents do not guarantee in case finance is needed and guarantee is also needed?

Mr. Kapadia.—That is very often a temporary arrangement—a stop gap arrangement so to say.

Mr. Boag.—Essentially so from the nature of the case!

Mr. Rahimtoola.—Without that stop gap arrangement, they won't be able to get the necessary finance.

Mr. Kapadia.—I don't agree with you. They may pledge their goods and raise the necessary finance.

Mr. Rahimtoola.—There are two sides to the question. As you yourself point out, goods may be pledged and the necessary finance raised. I shall come to that question later. We have been discussing just now the question about the managing agents' influence. That was the point raised by Mr. Shroff who said that the influence was exercised not in a healthy manner. I want to point out that it is the very foundation of the managing agency system that this very influence, though exercised in a particular manner—in a bad way—has proved very beneficial to the management of

the Company. Let us leave it at that and when we come to finance I am sure you will be able to give me more details.

Mr. Shroff.—You were raising the question of costs—I mean the cost of financing. Another important instance has come to light recently. I submit that it would be impossible to assess the cost. For instance, supposing an agent demands that the monies which are lent by him to the Company shall be converted into a loan?

Mr. Rahimtoola.—We might discuss this question later on.

Mr. Davar.—With regard to the conclusion that Mr. Rahimtoola came to just now—a very discomforting conclusion—*viz.*, that the managing agents' influence has, in spite of their drawbacks, done good to the management. . . . .

Mr. Rahimtoola.—It has done good to the Company because by their influence they are able to get the necessary finance for the Company.

Mr. Davar.—I will put it this way. Supposing there were no managing agents and supposing the mill had been floated from the very beginning on sound principles, that is to say, sufficient capital had been subscribed for by the shareholders and supposing there had been a Board of Directors and a Managing Director managing the whole show could not the same influence be exercised?

Mr. Rahimtoola.—I shall deal with that point later on.

Mr. Davar.—If you assume something, I would like to say that that assumption is wrong.

Mr. Rahimtoola.—We shall go to the next point.

Mr. Davar.—If that is convenient to you, we shall do so.

Mr. Rahimtoola.—I may tell you at once—it is necessary at this juncture—that the Board as such has not met to draw any conclusions of any character on the evidence tendered. At present, the object of the Board is to elucidate facts put before it by various individuals and Associations.

Mr. Davar.—I am not saying that you have come to any conclusion but you have made a certain assumption which I would like to answer immediately.

Mr. Rahimtoola.—Which assumption has been made before us by some other person and it is necessary to investigate that.

Mr. Davar.—When you say that the influence has done good. . . . . . .

Mr. Rahimtoola.—We have been told that the influence has been to the benefit of the Company.

Mr. Davar.—Say "you are told". That is a different matter.

Mr. Rahimtoola.—Whatever we are now investigating has been tendered to us in the shape of evidence, written or oral.

Mr. Davar.—I hope that we will have an opportunity of meeting that.

Mr. Rahimtoola.—When we come to the question of managing director *versus* managing agents, we shall deal with that question.

Mr. Davar.—You cannot divorce that from this.

President.—We shall manage it somehow.

Mr. Rahimtoola.—There is one point in connection with your Association that I want to make it rather clear. I take it that your Association is not confined to the textile industry alone?

Mr. Kapadia.—No.

Mr. Rahimtoola.—During the short time your Association has been in existence, you have examined various balance sheets and various other matters.

Mr. Kapadia.—Yes; in order to curtail discussion, may I tender a copy of the last annual report?

Mr. Rahimtoola.—I am coming to the point which I have in my mind. The point that I want to make is you have examined very closely com-

panies other than textile concerns which have also the system of managing agents. Now I want to know whether your experience points out that the textile industry is the only industry in which there is so much drain as far as the managing agency system is concerned or do you find these very defects in other companies also?

Mr. Kapadia.—Mostly in the textile industry for the simple reason that the textile industry has many departments.

President.—Because it happens to be the most important industry.

Mr. Kapadia.—Not because it happens to be the most important industry but because it happens to have various departments. Take the case of the Cement industry. We have 5 or 6 cement concerns in Bombay, I mean the concerns whose managing agents are in Bombay. We have not come across those gross instances, which we have come across in the textile industry, in the cement industry for the simple reason that the cement business is comparatively a very easy business to handle. In the textile industry, there are so many middlemen and so many raw materials are required.

President.—That is to say the number of transactions involved in the cotton industry is much larger than in other industries.

Mr. Shroff.—Yes. Inasmuch as several middlemen come into the industry, all these things take place. Take for instance the central selling organisation in the cement industry. One of our greatest complaints against the textile industry is the lack of a selling organisation.

President.—When the industry is composed of a small number of units it is easy to achieve that.

Mr. Shroff.—We don't suggest that there should be a similar organisation for textiles, but I say there are not the same grounds for the cement industry management to be condemned as there are for the cotton textile industry.

Mr. Rahimtoola.—You have not examined the condition of the paper industry I think.

Mr. Shroff.—There is no paper share quoted on the Bombay market.

Mr. Rahimtoola.—You are not aware of any of your members possessing any shares like jute or paper?

Mr. Shroff.—There are many members of the association who are large holders of jute and paper shares but all these concerns are situated outside Bombay and therefore we are not in direct touch with these but there is another association in Bengal called the Bengal Shareholders' Association in Calcutta; but it does not bother itself so much as we do in the case of the textile industry.

Mr. Rahimtoola.—Therefore you are not in a position to express any opinion on the subject?

Mr. Shroff.—That is right.

Mr. Rahimtoola.—Now I come to the question of protection. I understand definitely both from your representation and from your replies to the questionnaire that you are in favour of protection being granted to the industry?

Mr. Kapadia.—Yes, absolutely.

Mr. Rahimtoola.—Your suggestion is that whilst protection is granted you want the Board to make some sort of recommendation to reform the management. Do I understand that these two points are put together by you or individually?

Mr. Kapadia.—As a whole.

Mr. Rahimtoola.—That means that without reform no protection should be granted?

Mr. Kapadia.—We hold the view that without compelling the industry to set its house in order in the manner indicated in our representation the investor who is so to say the mainstay of the whole thing will not be

benefited and it is very necessary, therefore, in order that the protection may have all the beneficial effects for which it is intended, that the industry should be made to set its house in order.

Mr. Davar.—The committee's idea is that protection should be given. We do not wish as investors that the industry in which our people have invested large sums of money should be wiped out. That is one fear which naturally keeps us from opposing protection. At the same time our position is rather awkward: we want protection and at the same time we realise that the way in which things are managed may not benefit the industry in such a way as one would wish it to be in the face of foreign competition, and unless some concrete suggestions are made by your Board with a view to see that the industry carries out those suggestions that you recommend as necessary, we fear that protection will not benefit the industry.

Mr. Rahimtoola.—There are two aspects to this question as I understand it; one is that you have examined it purely from the view of competition between foreign and internal, and looking at it purely from that point of view you are of opinion that the industry needs protection irrespective of any other consideration. The second point is this that even if all the reforms suggested by you are carried out, still the industry, having regard to the trade depression, requires protection?

Mr. Kapadia.—We agree.

Mr. Davar.—Whatever protection scheme you may suggest should be so arranged that protection should be afforded on a graded scale...........

Mr. Shroff.—The point is this. I take it for granted that the basis for granting protection to any industry is to place that industry in a position where it can earn a reasonable return on the capital which is sunk in that industry.

Mr. Rahimtoola.—That is one of the main conditions.

Mr. Shroff.—If you want to see fresh flow of capital into the industry both for its expansion and development then some return on capital is absolutely necessary. We believe, Sir, that considering the intrinsic factors of the industry, the industry *vis-a-vis* the foreign competitor, it is inevitable that some protection must be there; without protection we believe the industry cannot stand. The time is fast coming when a large number of Bombay mills must close down without protection. I must emphasise that our idea of protection is to see a fair return on capital and we are also convinced that the benefits which you may legitimately expect to accrue out of the scheme of protection will not accrue to the investing public in India interested in the textile industry if the necessary reforms are not brought about. We don't say don't grant protection unless the mills put in this sort of reforms but it is possible to devise a formula under the shelter of the protective scheme by which the mills may be able to bring about the necessary reforms. The reforms by themselves we are convinced will not ensure a reasonable return on the capital; at the same time we believe you are not giving the investing public a chance to participate in the benefits of protection unless the necessary reforms are carried out by the mills.

Mr. Rahimtoola.—You still consider that the industry is in such a stage that it requires protection and that there is no condition precedent to the protection having regard to the present state of the industry as it is to-day?

Mr. Kapadia.—We want to keep the industry alive at any rate.

Mr. Rahimtoola.—In this instance you are not taking into consideration the position of the cultivator.

Mr. Kapadia.—We have taken up a position which cannot be easily assailed. When you are protecting an industry you will see that the industry is able to obtain its raw materials on the most economical basis, and judging from that standard we urge that all the obstacles which are in the way of raw materials should be eliminated.

Mr. Rahimtoola.—I may point out to you that one of the conditions laid down by the Fiscal Commission is that there should be not only raw material available in India but that raw material must be used as far as possible by the industry. If it is proved that some of the cotton that is coming into India is competing with the Indian cotton, do you still maintain that the duty should go?

Mr. Kapadia.—That is entirely a new aspect of the thing raised in this industry. We have discussed it several times but as far as I am aware, till now the millowners position was unassailable that the cotton they were importing was of the kind and quality which did not compete with the Indian cotton but the figures now put before us have made us to think of it again, and we should like to go into this question further.

Mr. Rahimtoola.—As far as your Association is concerned you are not committed to this view having regard to the change in the position?

Mr. Kapadia.—That is so, particularly after what the President has put before us. But what disadvantage there may be in the purchase of raw materials may perhaps be met by a scheme.

President.—Where your raw material or semi-finished raw material requires to be protected the finished goods will have a reasonable protection.

Mr. Kapadia.—Yes, we cannot object to that.

Mr. Rahimtoola.—Now I come to the question of reform in management. There is one preliminary question and that is that you have taken strong objection to a clause in the articles of association under which the board of directors have the right not to transfer shares to anybody, unless they choose to do so without assigning any reason. Does your association consider this as a hindrance to the investing public who want to go in for industrial concerns?

Mr. Davar.—The difficulty is this. This question has been repeatedly brought up even in England. Powers which are taken under the articles if wisely exercised would not do any harm, but unfortunately they are not wisely exercised always and what we have suggested would make it possible for shareholders to have some voice in the matter. Supposing I apply for certain shares and buy them: I put in my transfer form and if I am simply told that I am not wanted then the power is very arbitrarily exercised.

President.—How is this particular clause generally worded?

Mr. Kapadia.—I think it would be much better if I put before you the views of my committee on this point. The committee have felt ever since this association was started that the managing agents and board of directors are grossly abusing the powers vested in them under the articles. They now find that shareholders have now come out who are going to bestow upon the management of cotton mills honest criticism and that it is difficult for the management to cross swords with them.

Mr. Rahimtoola.—Do I understand that the managing agents are afraid of honest criticism? Is it not a fact that before your Association was started this article prevailed and there are cases cited where managing agents or directors have refused to transfer shares for reasons best known to themselves?

Mr Kapadia.—In very rare cases and to save the company from going into the hands of a particular individual. Cases have occurred before the association was started where shares were refused because the party who wanted to have the shares transferred wanted to take possession of the entire agency: it was for that reason that transfers were refused.

Mr. Rahimtoola.—Not in all cases?

Mr. Kapadia.—I mean in the majority of cases; there are perhaps three or four such cases, but after the association was started seven cases have cropped up withing the last four years. In one case my transfer was refused; in two cases my friend Mr. Shroff's transfer was refused; in the fourth case my assistant Mr. Patel's transfer was refused; in the fifth my relations

transfer has been refused; in the sixth case Mr. Bhaidas' transfer has been refused. This gentleman also is a member of the committee of our association.

Mr. Rahimtoola.—You don't object to the clause as such?

Mr. Kapadia.—We do; we have made that very clear in our representation. I shall read out to you the clause first: "The directors may decline to register any transfer of shares in any case in which the company has a lien upon the shares or any of them or whilst any shareholder, executing the same, is either alone or jointly with any other person, indebted to the company on any account whatsoever, or unless the transferee is approved by the Directors. The Directors shall in no case be bound to give or assign any reason for their refusal to register or allow any transfer and the Directors' power, at their own discretion, to refuse any transfer, shall not be affected by the fact of the proposed transferee being already a registered shareholder of the company".

Mr. Davar.—I may draw your attention to what we ask for in reply to question 35 and in that we are following the precedent of the Imperial Bank under whose Bye-laws transfers of fully paid shares cannot be refused.

Mr. Shroff.—I think it would clarify the issue if you analyse the possible reasons which may justify refusal of transfer: one reason is whether an attempt has been made to corner the shares or to acquire such a number of shares as to take away the agency. Another reason will be whether a shareholder who applies is likely to do harm to the company. Another case may be that the person is obviously an undesirable person. I would not mention names but there have been shareholders in India who have made themselves obviously undesirable to the company.

Mr. Rahimtoola.—Their reply will be that in certain cases discretion should be given and it has been exercised wisely, and according to Mr. Shroff it is necessary in certain cases.

Mr. Davar.—What we are asking for is the right to go up to a tribunal and make it certain that the discretion is being wisely exercised. Supposing a man is branded as undesirable he has got every right to go to a court of law to vindicate himself.

Mr. Shroff.—Another reason is that where shares are partly paid the company bases its own estimate of the financial standing of the party. That may be justifiable in certain cases because calls which are issued in future may not be paid. But our suggestion is a very reasonable and moderate one and that is where the shares are fully paid and where the directors cannot entertain an apprehension of that character and where a person is not obviously undesirable, transfers should not be refused.

Mr. Rahimtoola.—How is a director to judge whether a shareholder is obviously undesirable or not?

Mr. Shroff.—That is for them to decide.

Mr Rahimtoola.—You want to give them discretion?

Mr. Shroff.—Suppose I took certain strong attitude at a Board meeting and unfortunately made things hot for the management: the management who might happen to be the agent in another company should not make that as an excuse for transfers in other companies being refused, or the agents of other companies should not take the hint from what happened in that meeting and refuse my transfer for that reason.

Mr. Rahimtoola.—Is that a reason for branding you as an obviously undesirable person?

Mr. Davar.—Is it in the interest of the industry to allow directors to exercise their powers in this arbitrary manner?

Mr. Rahimtoola.—That is why I raised that first question in respect of your recommendation that transfers should be executed or should be granted in the case of fully paid up shares: I had in mind certain things which Mr. Shroff has now brought out, namely whether you still insist that there

should be no discretion allowed to the board of directors or whether this clause should be deleted altogether. That was the point which I raised.

Mr. Davar.—I will prefer that clause to remain, but that the right should be given to the shareholders to fight it out.

President.—In the High Court?

Mr. Davar.—The legal position is that the words which say that the Directors are not bound to give any reason should be made inoperative. Then they will be bound to give reasons. They can of course refuse me personally, but for the operative portion of the clause I cannot go to a High Court and fight it out. If this clause were not in existence and if the Courts are satisfied that the refusal was mendacious or capricious, they would interfere.

President.—The Courts have said that.

Mr. Davar.—Yes. Therefore I say give us a chance of appeal. If the man has not got a good case, he is not likely to go to a Court of Appeal and fight it out. When a man thinks that an injustice is done to him—and mind you the share in his property—he should be given a right to indicate. The directors have no excuse to refuse to transfer when the shares are fully paid, and still if the transferee is kept out, it is a blot on his character and he should be allowed to fight it out.

President.—What you are contending for is a right of appeal in a case of that kind and I take it from your statement of the law on the subject, the right of appeal would lie provided a statement of reason was given. Then all that is necessary is that the Articles of Association should insist upon a statement of reasons.

Mr. Davar.—Yes. My Committee has gone farther than that. Personally I should be satisfied.

Mr. Shroff.—That may be provided by a safeguard. I would just like to put before the Board this point. For an Association like ours to further our activities and strengthen our hands, the law must assist us in the way of getting shares transferred in Companies where we want to be shareholders with this moderate request that where shares are fully paid, there should be no right on the part of the Directors to refuse transfers. The question is very simple. There are certain shares which are quoted at 3 annas a share. I am just giving you a single instance. In one of the Companies I offered to be a shareholder and the object was not to make splendid investment, but because a very important issue cropped up and it was the desire of several of my clients and friends that I should take up the issue by attending a meeting of their Company. The shares are now worth 3 annas. 100 shares do not cost me much. If a lawyer's safeguard is taken up for protecting my investment of Rs. 22 or Rs. 23, I will have to incur all the litigation expenses of questioning the reasons that may be assigned by the Directors for refusing my transfer. You are creating difficulties in the way of a body like ours.

President.—When you speak of a right of appeal I take it the difference between yourself and Professor Davar is this. Supposing there was a definite statement of the reasons given by the Directors, on that statement of reasons it would be open to Professor Davar to go to a Court of Law and lodge an appeal. Your point is that there must be a definite right of appeal given. In that case are you thinking of judicial appeal?

My Shroff.—I am not thinking of a right of appeal. I say that the Directors must be deprived of the power to refuse transfer in the case of fully paid up shares.

Mr. Kapadia.—Please see page 23 of the replies. That is the Association's view and we are here to support the Association's view.

President.—The Association's view is that the Directors should be deprived of the discretion of refusing the transfer.

Mr. Shroff.—Yes in regard to fully paid up shares.

Mr. Kapadia.—We support that view of the Association by placing before the Board concrete cases where this discretion has been misused.

Mr. Rahimtoola.—That does not answer my point which I raised in the beginning. My point is this. Has there been any instance where an investor who wishes to invest his money in industrial concerns has been deprived or discouraged by the Board of Directors by the clause they have put?

Mr. Kapadia.—Take my own case.

Mr. Rahimtoola.—Your case is different.

Mr. Kapadia.—I invested my money in the Tata Construction shares. When these shares were quoted at Rs. 23 or Rs. 24, my transfer was refused. At that time the Association had not been floated. You cannot discriminate. If I lodge a transfer of 50 shares and if my transfer was refused, the Directors could not turn round and say "you have put in a transfer for 50 shares, because you wanted to come into our Company and agitate". I was thinking that shares might appreciate and I might make some profit out of it. I purchased the shares and submitted the transfer. We feel very strongly on this point. The principle of British Jurisprudence is this: let 100 criminals escape, but not let one innocent man be unnecessarily butchered. If the Board of Directors think that if they had not this article, they might have to make room for one or two undesirable persons then let not innocent shareholders' interests suffer by means of such an article.

President.—You cannot argue between commercial law and criminal jurisprudence.

Mr. Kapadia.—I cannot argue, I know. In the case of banks the position may be different. I am trying to draw an analogy. In the case of Joint Stock Companies like Textile Mills, this is the position. In England I may tell you in the stock exchange they won't allow transactions to take place where such clauses are given and if you look at the formation of Companies in England, they won't have these clauses at all, if they want their shares to be quoted.

Mr. Davar.—They would not quote these shares on the official list.

President.—Is that a perfectly correct statement?

Mr. Davar.—Absolutely.

Mr. Kapadia.—I will give you the copies of correspondence that we had with the London Stock Exchange from which you will see that if the articles of a company authorise the Directors to refuse transfers of fully paid up shares for any reason whatsoever the stock exchange will not grant permission to deal in that company's shares. I undertake to furnish the Board copies of this correspondence.

President.—I should like to see the condition.

Mr. Kapadia.—Yes.

Mr. Rahimtoola.—As regards the mills for which costs have been given, you consider these mills as representative of the Bombay industry.

Mr. Kapadia.—It is a very difficult question for us to answer. All that we can say is that the figures of costs have been obtained from mills which have been known to possess reasonably new machinery and it is rather unfortunate that costs have not been asked from two or three mills which are known to be very weak. That would have given the Board an idea as to how the actual scheme of protection had been at work.

Mr. Rahimtoola.—That is different. I want to know whether they are fairly representative.

Mr. Kapadia.—So far as the representative character of the mills which have submitted their costs to the Board are concerned, I can certainly say that they have given from different groups and these mills can be taken as fairly representative.

President.—They don't represent the strongest mills. They don't represent the weakest mills. They represent the average.

Mr. Kapadia.—Yes, I agree. All that I was trying to point out is that it would be much better if costs had been obtained from mills which were known to be very weak.

Mr. Boag.—They would have been of no use to us.

Mr. Shroff.—They would have been. You would have seen perhaps the possibility of suggesting the elimination of some of the weaker units which are hindering rather than helping the existence of this industry.

Mr. Boag.—That is not our concern at all.

Mr. Rahimtoola.—Now I will come to the question of reform in management which I understand is the second strongest point which is taken up by your Association. I understand as far as this is concerned, you have taken two different standpoints. One standpoint is that you would like for the time being to tolerate the system of Managing Agents prevailing provided certain reforms are carried out to which detailed reference will be made as we go on and the second standpoint is that you want that no new Companies to be formed hereafter after the scheme of protection is introduced should be started with the Managing Agency system, is that correct?

Mr. Davar.—Yes.

Mr. Rahimtoola.—That is your position as described in your memorandum?

Mr. Davar.—Yes.

Mr. Rahimtoola.—Taking the last point first will you give me any instance at present in existence of a Textile Company which is run by a Managing Director.

Mr. Shroff.—There was one some time ago. The Millowners Association mention that in their correspondence. Please see Exhibit D, page 32 of our printed representation.

Mr. Kapadia.—The Millowners in reply to our enquiry say that there is one mill managed by a Managing Director whose remuneration is fixed by the Directors.

President.—What is your information? Is that mill still in existence?

Mr. Kapadia.—I don't know exactly the name of this mill. I disregarded this piece of information thinking it to be trivial and I did not pursue the point further.

Mr. Rahimtoola.—As far as your Association is aware, you have not come across any instance.

Mr. Kapadia.—We have admitted that the industry is run under the Managing Agency system.

Mr. Rahimtoola.—One's experience is better than theory. That is why we want to know.

Mr. Kapadia.—We can give our experience with regard to another industry, *viz.*, the cement industry.

Mr. Rahimtoola.—That is on quite different footing.

Mr. Kapadia.—So far as the cement industry is concerned, the system has undergone a change.

Mr. Rahimtoola.—So far as the Managing Agency system is concerned as regards the Cement and the Textile Industry they are on a par.

Mr. Kapadia.—Yes.

Mr. Rahimtoola.—Is the financing on the same scale?

Mr. Kapadia.—The financing may not be on the same scale. The necessity of financing is there. The necessity of finding working capital is there. The Cement industry has also been subject to the same sort of vicissitudes as the Textile industry. There was depression in the Cement industry in 1924-25 and Cement Companies have gone into liquidation and working capital has to be found for the Cement industry.

Mr. Rahimtoola.—Not to the same extent?

Mr. Kapadia.—The question is one of degree.

Mr. Rahimtoola.—Finance is rather an important thing.

Mr. Shroff.—Then we will have to enter upon other issues. Relatively speaking the Cement industry is a much smaller show.

Mr. Kapadia.—There is no doubt about that.

Mr. Rahimtoola.—You are now making a definite suggestion, because as I understand as a result of the protection just as in the Sugar industry it may be that in future many cotton mills may be established. Now that you want to provide a provision that no Company in future should be started with a Managing Agency system it is a point which requires investigation.

Mr. Shroff.—Yes.

Mr. Rahimtoola.—Therefore as far as the Textile industry is concerned, I don't think you are at present aware of any Company which has now been working with a Managing Director.

Mr. Shroff.—How can a Textile Mill work under the Managing Director when the system prevalent in the industry is the Managing Agency system?

Mr. Rahimtoola.—The system is not enforced at present. Do I understand from your point of view that if to-day I want to start a Company with a Board of Directors and Managing Directors, I am not allowed to do so.

Mr. Kapadia.—You are allowed.

Mr. Rahimtoola.—Then what has prevented it from coming in?

Mr. Kapadia.—Because nobody wants to do that.

Mr. Davar.—I would certainly think of starting an Agency system than making myself a Managing Director and being bossed over by the Board of Directors.

Mr. Rahimtoola.—I think there is a mistake. If a Company is going to be started with a Managing Director, I say the Managing Director is not the person who starts it. The Managing Director is the paid servant of the Board of Directors.

Mr. Davar.—There are many Companies where the Managing Director is a Director as well as a Manager. If I promote a company there is nothing to prevent me from acting both as a Director and Manager and thereby I would be a Managing Director.

Mr. Rahimtoola.—That would be a very difficult proposition as far as the capitalist is concerned. It is only a few people that can combine.

Mr. Davar.—Supposing I am a person of great amount of influence and I can get capital and think of starting a mill, two alternatives are open to me. One is to form a Company with a longterm managing agency where my sisters and brothers and family in succession may take part and then I should reserve an option of say 90 years for renewal of my agreement. Articles of Association would be drafted according to my instructions by my lawyer. The other alternative is to work as a promoter and take my promotion fees, etc., and work with people who have joined with me as Directors and run the show. I would certainly prefer the former method.

Mr. Kapadia.—Why are Insurance Companies floated with Managing Agents?

Mr. Rahimtoola.—I don't think the Insurance Company can be on the same par as the Textile Industry.

Mr. Kapadia.—Why are Insurance Companies floated with Managing Agents, although there is no guarantee to be given? Why are banking Companies floated with Managing Agents, although no guarantee is necessary? We pointed out to the Banking Enquiry Committee that the Managing Agents so far as banking institutions are concerned were unnecessary. It was due to our efforts that the Banking Enquiry Committee was persuaded to declare that the Managing Agency system should be done away with. The same is the case with insurance companies. The truth of the whole thing is this, that merely because this system has been in existence in several industries for a large number of years, every body has found that it is the most pay-

ing system and everybody has adopted it. The moment an innovation is made, people will follow the other system and I pointed out to you yesterday that 2 cement Companies were floated in Bombay with Managers and Secretaries.

President.—When you speak of a Secretary, is a Secretary essentially different from Managing Agent? These terms are synonymous.

Mr. Kapadia.—The Secretary is not a Managing Director. The Secretary is merely a paid servant of the Company.

President.—He has no place on the Board of Directors?

Mr. Kapadia.—No. Unless he is for some special reason appointed as a Director by the Board, he has no place on the directorate. He is merely an ordinary servant of the Company appointed to do the Secretarial work for the Company.

Mr. Shroff.—There are one or two cases in Bombay where there are Secretaries and Treasurers who are in the same position as Managing Agents.

President.—I have seen a good many cases.

Mr. Shroff.—The Indian Radio Telegraph Company is a well known instance. There are certain firms of merchants who are Secretaries and Managing Agents of the Company.

President.—They are really Managing Agents?

Mr. Shroff.—Yes.

Mr. Kapadia.—I have been talking of the paid Secretary.

Mr. Davar.—In England where there is a Managing Director, there is a Managing Director, Board of Directors and Secretary. The Secretary does simply ministerial work, carries on correspondence and keeps minutes of the proceedings.

Mr. Kapadia.—I was trying to reply to Mr. Rahimtoola's point. Once an innovation is made people will think that the new system will work all right. Because the Managing Agency system has been in existence, nobody has thought of any other system. That is my simple answer to your question.

Mr. Rahimtoola.—That is not correct. There are, as you yourself admit a number of Companies floated recently with Managing Directors. It is not that people have not thought of it.

Mr. Kapadia.—There are only two.

Mr. Rahimtoola.—Two have been recently started. There are, you say, a number of Insurance Companies and banks.

Mr. Kapadia.—In insurance companies also there are managing agencies.

Mr. Rahimtoola.—Take the case of New India?

Mr. Kapadia.—Take the case of Jupiter. But we are talking of manufacturing concerns here.

Mr. Rahimtoola.—I am glad you have qualified that.

Mr. Shroff.—Possibly you may have to ascertain from the Millowners' Association themselves. Are they in a position to say that it is impossible to start a textile concern say in Bombay or Ahmedabad without the managing agent?

Mr. Rahimtoola.—I would not like to answer that on behalf of the Millowners' Association.

Mr. Shroff.—I am referring to the information which you may have obtained.

Mr. Rahimtoola.—It is not to be told to you at this stage.

Mr. Davar.—As regards Insurance Companies there are managing agents as well as Managing Directors. If you look at the names of Managing Directors, you will find that they are promoters themselves or are partners.

Mr. Rahimtoola.—Managing Director can only be one man.

Mr. Davar.—He is one of the Agents' firm and he is one of the most principal promoters. If you look at the Jupiter or the Vulcan, you will find that.

Mr. Rahimtoola.—As regards the managing agency system, I would like to begin with the history of that system, if you will bear with me, in a few words. This is a point which you have dealt with at some length. Under the present system, whenever a new company is started, the managing agents invite a few friends of theirs who are interested in the new Company and between themselves and their friends the majority of the shares are held when the Company starts. Is that correct?

Mr. Kapadia.—If it is going to be a public issue, that is to say if a public prospectus is issued, then the managing agents very often state in the prospectus that so many shares are to be taken by the managing agents or their friends. But if the public subscribe for those shares, then the managing agents are under no obligation to take up shares, but they state this in order to persuade the public that they have some stake in the concern which it is proposed to start.

Mr. Rahimtoola.—What is the invariable result of this Declaration? Are they to bear the burden of the shares in the beginning or do the public very willingly subscribe?

Mr. Kapadia.—If the public find that the proposition is attractive.

Mr. Rahimtoola.—You mean from the memorandum put forward?

Mr. Kapadia.—And the other details given in the prospectus. If the public find that the proposition is sufficiently attractive, then there is a scramble for shares.

Mr. Rahimtoola.—Personally I do not know whether the public, when a Company is originally started, are so capable as to go into the merits of the prospectus. My belief is that they generally judge the prospectus by the managing agents and their firm.

Mr. Kapadia.—I would not accept that without qualification. I would say that it all depends upon the prospects of the proposed industry. Take, for instance, the sugar industry which is doing well at present.

Mr. Rahimtoola.—I am confining myself to the textile industry.

Mr. Kapadia.—You have put me a general question, *viz.*, is it not true that managing agents take up the bulk of the shares and put their own stake in the concern. I say that it all depends upon the prospects of the concern. Take the case of the sugar industry which is in a fairly good way at present. If a public issue is made at present, I am quite certain that it would be oversubscribed provided the public is convinced that the issue has been well organised. It all depends upon the chances of the industry.

President.—Arising from that point, the consequential suggestion would be that if an industry were definitely protected for a fixed period, the very fact that it is protected, would offer sufficient attraction.

Mr. Kapadia.—Yes, to the investors.

President.—In that case, the question of having a managing agency would not be so important as in the case of an industry which is not protected?

Mr. Kapadia.—Exactly.

Mr. Shroff.—On the contrary, the experience of our managing agency system has been such that I may boldly say that the affixing of a certain name to the prospectus would be a hindrance rather than a help to obtaining subscription.

Mr. Davar.—At any rate in some cases.

Mr. Shroff.—I would like to give another reason as to why the public are induced to buy shares. It is not only the prospectus but I think the main factor is the time—the actual conditions and circumstances of the time—at which the issue is made. You have seen how the shares of the Tata Industrial Bank were sold. People without knowing anything about an industrial Bank went in for shares. At present, even if the best managing agents of a textile concern came out to-morrow in Bombay with a new issue, it would fail.

Mr. Davar.—Even if Tata's came forward.

Mr. Shroff.—The psychology of the investor is a big factor.

President.—We have to separate out these factors if we want to get a clear idea. Leaving out the industrial conditions at present—and also the conditions of the money market—the fact that a respected managing agent has put in his name in the prospectus must carry a certain amount of weight in cases where the industry is not definitely protected, that is to say where the industry is exposed to ordinary hazards of business, but on the other hand where you have an industry definitely protected by the State—where the State guarantees protection for 15 years as in the case of sugar—then it may not be nearly so important—I mean the name of any respectable managing agent affixed to the prospectus.

Mr. Shroff.—No.

Mr. Davar.—In such cases as you are going to extend protection.

Mr. Rahimtoola.—That is a question which the Board has not yet decided?

Mr. Davar.—We will assume that. Supposing you do, then we say that our stand fits in.

President.—It does not materially assist the problem if we are thinking of sugar. In the case of the sugar industry, there is an enormous market in the country. The potentialities of development are enormous. In the case of the textile industry, more than 75 per cent. of the existing Indian market is now in the hands of the Indian industry. The room for development is not nearly so great as in the case of the sugar industry. Supposing you made this restriction in the case of new companies, you would find that your conditions are enforced on companies which represented less than one-fourth of Indian production. That is what it would amount to.

Mr. Shroff.—You would set a new fashion.

President.—You might work politically.

Mr. Shroff.—It might enable shareholders to force the hands of existing managing agents and see that the managing agency agreements, when they expire, are not renewed.

President.—They don't expire for 99 years.

Mr. Shroff.—That is not so in most cases.

Mr. Rahimtoola.—I will come to the next point. After the prospectus is issued, a certain number of shareholders come in. Is it not a fact that a shareholders' meeting is held where all the managing agency agreements and the Articles of Association are considered and agreed to?

Mr. Kapadia.—No. That is our main complaint.

Mr. Davar.—That is not done.

Mr. Kapadia.—I will tell you how the Articles and agreements are self-imposed. If you want to have an idea, I will certainly place before you the particulars.

Mr. Davar.—They put in the names of Directors in the Prospectus and Articles from the very start and therefore the shareholders have no voice. Even the appointment of Directors is not approved of. Formerly in old days they did not mention them. At the first meeting the Directors were elected.

Mr. Rahimtoola.—The shareholders have a subsequent chance of throwing them out?

Mr. Davar.—The power is very vague.

Mr. Rahimtoola.—The difficulty that you have pointed out is question of days?

Mr. Davar.—Yes, and of getting proxies.

Mr. Rahimtoola.—That is for the shareholders. If the shareholders are not in agreement, you cannot get the necessary proxies.

Mr. Kapadia.—What is being done is that the managing agents instruct their solicitors to prepare the necessary memorandum and the Articles of

Association and the agency agreement is also prepared. When the prospectus is issued, all these three things are kept open to inspection for intending subscribers.

Mr. Rahimtoola.—They are the shareholders?

Mr. Kapadia.—Those who want to subscribe. If you want shares you are supposed to have read the documents before making the necessary application. If I want to purchase shares, I have to send the application to the Board of Directors and I am taken by them to have read these things which are kept open to inspection either at the Company's office or at the Company's solicitors' office. If I am a resident of Ahmedabad and if I send in an application finding that so and so are managing agents, I generally do it without reading these things.

Mr. Rahimtoola.—That is my point. In many cases shares are subscribed for because of the name of managing agents.

Mr. Kapadia.—The name of managing agents to a certain extent carries some weight but it does not follow from that that if the proposition is otherwise attractive, it would not succeed.

Mr. Rahimtoola.—Let me put this before you. As you have put it now, sufficient opportunity is given to a shareholder to examine the documents containing the Articles of Association and the managing agency agreement. It is open to him not to subscribe if he finds that the Articles of Association are most objectionable and detrimental to the Company. If he subscribes and becomes a shareholder of that Company whose documents are kept open for inspection by him, he does so with open eyes.

Mr. Kapadia.—I agree. I don't for a moment deny that.

Mr. Rahimtoola.—That is the indirect assent which the shareholder has given?

Mr. Kapadia.—I do not for a moment deny that these things are open to inspection by the shareholder. What we are trying to contend is that that system is wrong. The Directors themselves do not know sometimes what the Articles and the agreement contain.

Mr. Rahimtoola.—We need not discuss the question of Directors not knowing anything. You told me at the very beginning that people were not so educated as to go into the minute details of the prospectus. I said that people were guided by the name of managing agents.

Mr. Kapadia.—On the contrary I said after reading the prospectus if people found that it was a lucrative proposition, they would subscribe.

Mr. Rahimtoola.—It is putting it in another form. After reading the prospectus and after going into the minute details only you can find the proposition attractive. Therefore it means that you have gone into the details as put forward in the prospectus. It comes to the same thing.

Mr. Kapadia.—I don't deny that.

Mr. Rahimtoola.—Having not denied that, you could not say that a man who becomes a shareholder of a Company has not taken sufficient interest by inspecting the documents which are open to inspection?

Mr. Kapadia.—You are technically right. All shareholders who apply for shares are supposed to have read the Articles and the agreement. We do not for a moment deny that. The question is what do you find in actual practice?

Mr. Rahimtoola.—You must simply refuse to subscribe?

Mr. Kapadia.—What would then be the economic position of the country? The economic progress of the country would be retarded. Is that desirable?

Mr. Rahimtoola.—Does it mean that other people are prevented from floating companies?

Mr. Kapadia.—If you float a concern with Articles containing highly restrictive clauses and if the investor afterwards comes forward and says "these are highly restrictive clauses with the result that I have not been

able to take any intelligent interest in the affairs of the Company ". Is that a position which the State ought to tolerate?

Mr. Rahimtoola.—Why should they go into a company like that?

Mr. Davar.—This is a kind of argument which is as old as the hills namely that shareholders are supposed to have read the Articles, prospectus and the other relevant documents. It is as good as saying that every man is supposed to know the law whereas nobody knows the law perfectly. The point is what has happened in England. Clauses have been put in the Articles, one of them saying that the Managing Directors shall not be liable for negligence, for this, that and the other. With these clauses in the Articles when cases came up for consideration in Courts of Law, they held that as long as these undesirable clauses remained in force, the Directors were not liable. What did the Parliament do? Immediately they passed an Act and put in a section to the effect that these Articles would be banned. Why? Because the Government found out, the Parliament found out, that the average shareholder was incapable of reading and understanding these things. An average man is not a lawyer. The man who wants to buy shares of the value of Rs. 200 or Rs. 300 is neither a lawyer nor has he got the means to go and study the Articles through a lawyer, and therefore he has to rely on various things which are suggested. That factor has, I submit with great respect, to be taken into account by you as you are making a statement to the effect that the shareholder is supposed to have read these things and that if he does not read or cannot read or understand and still he buys the shares with his eyes open or closed, he must bear the consequences. I submit that there must be a limit to that.

Mr. Shroff.—My submission is this that the State is there to safeguard the interests of the community in general.

Mr. Rahimtoola.—I don't think that you have understood the position at all. I was just tracing the history of the managing agency system and the consequences that followed since the starting of that system. What is the percentage of the foolish shareholders who do not take care of their own interest?

Mr. Kapadia.—The majority are like that.

Mr. Rahimtoola.—The majority of shareholders who subscribe have been, and are, foolish shareholders?

Mr. Shroff.—They have been foolish in the past.

Mr. Davar.—According to Hartley Withers, one of the authoritative writers, " In England where people are supposed to be more educated, the shareholdes seldom read these ".

Mr. Kapadia.—Take for the sake of illustration the clause about commission. It is laid down that the managing agent will be entitled to charge a certain percentage on profit. I, as an intelligent man, would not be in a position to perceive that the managing agent under this clause would be able to appropriate a percentage on premium on new shares issued. If the profit of the Company is Rs. 10 lakhs without taking into account the premium realised on the issue of new shares. I take it that he will get 10 per cent. or Rs. 1 lakh. I do not know and cannot be expected to know that in the profit the premium which the Company may obtain on the issue of new shares would be included and the managing agent would be entitled to take his pound of flesh on that.

Mr. Rahimtoola.—I have told you from the very beginning that you are not compelled to purchase shares. You are not bound to take any shares in a particular company.

Mr. Kapadia.—The joint stock enterprise will have to wind up then!

Mr. Rahimtoola.—Why should it?

Mr. Shroff.—Because these are matters of public policy by which certain standards must be set up by the State as a neutral and impartial body

if the economic advancement of the country through joint stock enterprise on sound lines is to be achieved.

Mr. Rahimtoola.—I think we will now deal with another point. I will come to the details about the reforms of management. In Question 33, I think we have dealt with the kinds of commission, indirect and direct, that the managing agents are supposed to receive.

Mr. Kapadia.—We have submitted a considered note as far as we know of them.

Mr. Rahimtoola.—You have submitted a statement for particular groups for which costs are given. I want to know whether your association is in possession of the details as enumerated on page 34 of your replies.

Mr. Kapadia.—Yes.

Mr. Rahimtoola.—Are you in possession of details as to the rates charged by the managing agents under these individual heads?

Mr. Kapadia.—Take the purchase of cotton: we have furnished you with a copy of that agreement (*vide* confidential note) and that shows what commissions are charged on purchases of cotton.

Mr. Rahimtoola.—Is this the general practice?

Mr. Kapadia.—We are not in the trade; these instances which have come to our notice have been supplied to us by different parties.

Mr. Rahimtoola.—I will come to that later. What I want to know is whether you have any idea as to the details of brokerage or commission or mucadamage which in individual cases they are supposed to receive?

Mr. Kapadia.—Take for example the selling agency commission, we know that generally on grey they get 1 to 1¼ per cent. whereas on fancy and coloured 2 to 2½ per cent.

Mr. Rahimtoola.—Supposing the managing agent has not got a selling agency of his own will these be the rates or will the rates be lower?

Mr. Kapadia.—The rates vary with regard to different concerns.

Mr. Rahimtoola.—Take the case of two concerns one a managing agency without a selling agency and the other with a selling agency?

Mr. Kapadia.—I would point out that the rates charged by managing agents wherever they are selling agents can be shown to be high and there is very sound reason for that. Take the case of that particular group where the managing agents are also selling agents: full details are submitted in our confidential note and you will have noticed one very important factor at the bottom of page 8. We might discuss it in camera later.

Mr. Rahimtoola.—That is the only thing you are able to give me?

Mr. Shroff.—I think the best thing for us would be to work out a statement.

Mr. Kapadia.—Let me understand clearly what you want us to do. You want us to give you certain figures with regard to the rates of commission charged on sales, on purchase of cotton............

President.—Purchase of cotton, stores, machinery, selling yarn and cloth, insurance, coal and fuel. There is one other important point on which I don't know whether you can work out for us illustrated figures and this is the proportion of outstandings. You can give some individual cases: I don't know whether you can do more than that.

Mr. Kapadia.—No, sir. Those companies' outstandings have been got on a very low level.

President.—The point with regard to outstandings is this: suppose you have a company under reasonable management what would you consider to be the normal proportion of outstandings? That is the point I want to get at.

Mr. Kapadia.—Yes: then you want brokerage and mucadamage?

President.—Yes: that is a sub-heading under cotton purchase. And since you are going to make an endeavour in various directions I would like

you to try your hand also at working out typical illustrated cases which would give me an idea of the extra price that the company has got to pay for its money when that money is provided by the managing agent.

Mr. Kapadia.—Yes, I will try to give it to you.

Mr. Rahimtoola.—The next point is finance—your answer to question 31. I would like you to tell me what exactly you wanted to put before the Board.

Mr. Davar.—The impression that I gained from your question was that what you wanted to put there was that unless there was a managing agency behind the industry there could be no financing of industries in this country.

Mr. Rahimtoola.—There would be difficulty.

Mr. Davar.—No. Supposing a mill is started with sufficient capital; supposing the figures of working capital and the block and everything else are properly put on paper and calculated and then the company is floated. I don't see that they should have unnecessarily large capital or should be over-capitalised, but if the experts and the promoters sat down and worked out these figures and floated the company as they do in other countries under the proper auspices just like the other concerns outside the cotton industry and then if they wanted a temporary advance, if they wanted to have reasonable deposits on the credit of the company itself, there could be no difficulty. Then again, there would always be stocks of raw produce and finished article at the mills ready for being pledged and for money being raised as they do elsewhere. It is because the managing agency system largely rests on fixed deposits and short term loans in the form of current account deposits that they are afraid of pledging in the way in which they would otherwise do and then the signature question would practically go out altogether.

Mr. Rahimtoola.—I think this question is connected with the banking question and it is necessary to understand the position of the banks who finance the concerns. There are two ways in which banks finance mill companies: one is that they take what you have described as physical possession of the mills and put their board on their godowns and keep a clerk and necessary checks if the goods go out. The other is by hypothecation, that is second signature. I would like to know whether under the English banking system it would not be a difficult proposition without the managing agency system to obtain necessary finance?

Mr. Davar.—First of all there would not be so many calls for finance if they had started with sufficient finance.

Mr. Rahimtoola.—Let us take a mill with 45,000 spindles and 1,000 looms costing about Rs. 45 lakhs started to-day; surely you would require working capital?

Mr. Davar.—That capital could be provided out of the share capital itself.

President.—Supposing I suggested that the amount of working capital required would be Rs. 12 lakhs with Rs. 45 lakhs as fixed capital, on that basis how exactly would you proceed?

Mr. Davar.—That should be sufficient. When you buy cotton or sell goods the purchases are not always for ready cash. A certain amount of credit is always obtained by mills for the various things they buy.

President.—That is not my point. What I mean is this: assuming that normal credit is taken into account and normal outstandings and so on, on that normal basis, supposing a mill required working capital to the extent of Rs. 12 lakhs—you want fixed capital Rs. 45 lakhs and working capital Rs. 12 lakhs—supposing a company of that kind was floated with a managing director with an independent board of directors?

Mr. Davar.—Working capital could be largely obtained by taking the fixed deposits just as a managing agent does.

Mr. Shroff.—Do I understand you like this, that a new company started with a capacity of 1,000 looms and 40,000 spindles requiring a capital cost

of Rs. 45 lakhs for the mills. Of course those who promote this mill will make an issue of capital to the extent not only of Rs. 45 lakhs but also 10, 11 or 12 lakhs more which may be required for working capital. It is not difficult to find out what working capital would be required. What I say is this: when you start a company with Rs. 57 lakhs paid up I don't see any difficulty in finding working capital at all.

Mr. Boag.—Issue shares to the whole amount?

Mr. Shroff.—Yes.

President.—If I may say so, if you take the general run of industries in India you will find very few cases where the whole of the fixed capital and working capital has been raised by shares. I don't pretend to have full insight into these matters but I believe a considerable portion of the working capital in industries in other countries is raised by the issue of initial share capital.

Mr. Davar.—A portion of it.

President.—Let us say I am able to raise Rs. 50 lakhs in the form of share capital, I have still to find 7 to 8 lakhs of rupees?

Mr. Davar.—Rs. 7 or 8 lakhs will not be required from day to day. Why should you not be able to raise that sum on your own credit? You have a concern behind your back and if the liability side of your balances is safe any bank would let you have credit on the mill itself or for example on the deposit of the title deeds.

President.—Supposing we assume that when that prospectus was issued the kind of response was such that you were able to raise not more than Rs. 45 lakhs?

Mr. Shroff.—I would reduce the capital of the mills; it is more sound to start a mill provided with enough working capital: instead of starting a mill straightaway with 1,000 looms we would start with 700 looms.

President.—The answer to that is that if I work on the basis of 1,000 looms I work on an economic basis; if I work with a smaller unit my costs will go up. What I gain in one way I lose in another.

Mr. Shroff.—If it is not possible to find the capital the best thing is not to start a concern at all: rather than start a concern which would go to rack and ruin.

President.—There you are begging the question.

Mr. Shroff.—I can't see any sanctity attached to the custom and practice if you suggest that working capital should not be raised as part of the fixed capital.

President.—That is not my point. If you are able to raise the whole of your working capital I have not the slightest objection to it. As a matter of fact as things work themselves you are not able to do it.

Mr. Davar.—In the new English Companies' Act it is provided that when a company is floated they have got to stato the minimum subscription. It would be very interesting for you to study this in this connection.

President.—What is the date of that Act?

Mr. Davar.—1929, a quite recent legislation.

President.—Was there a special committee of enquiry?

Mr. Davar.—Yes, the first was known as the Wrenbury Committee and the second was the Green Committee.

Mr. Kapadia.—I will read from the English Act, IVth Schedule, Part I.

"Where shares are offered to the public for subscription particulars as to—

(1) the minimum amount which, in the opinion of the Directors, must be raised by the issue of those shares in order to provide the sums, or, if any part thereof is to be defrayed in any other

manner, the balance of the sums, required to be provided in respect of each of the following matters:—

(a) the purchase price of any property purchased or to be purchased which is to be defrayed in whole or in part out of the proceeds of the issue;

(b) any preliminary expenses payable by the company, and any commission so payable to any person in consideration of his agreeing to procure subscriptions for, any shares in the company;

(c) the repayment of any moneys borrowed by the company in respect of any of the foregoing matters;

(d) working capital; and

(2) the amounts to be provided in respect of the matters aforesaid otherwise than out of the proceeds of the issue and the sources out of which those amounts are to be provided."

Mr. Davar.—This is all embracing.

President.—That is to say the prospectus should contain a statement of the minimum sum provided under these heads.

Mr. Kapadia.—It should contain a statement of the minimum subscription necessary and in the minimum subscription necessary are included all these items.

Mr. Davar.—This makes it impossible for any Company to be floated without proper finance.

Mr. Kapadia.—The one that I read is the schedule and I will read to you the Section.

President.—Please read it.

Mr. Kapadia.—Section 39 of the English Companies Act. "No allotment shall be made of any share capital of a Company offered to the public for subscription unless the amount stated in the prospectus as the minimum amount which, in the opinion of the Directors, must be raised by the issue of share capital in order to provide for the matters specified in paragraph 5 in Part I of the Fourth Schedule to this Act has been subscribed, and the sum payable on application for the amount so stated has been paid to and received by the Company. For the purposes of this sub-section, a sum shall be deemed to have been paid to and received by the company if a cheque for that sum has been received in good faith by the company and the Directors of the company have no reason for suspecting that the cheque will not be paid."

Mr. Davar.—This minimum subscription has to be applied for and paid for in cash.

Mr. Kapadia.—That meets to a certain extent the point raised about the working capital. In England under the new Act no Company shall be floated unless the Directors have provided amongst other things for the working capital.

Mr. Rahimtoola.—I want to understand the point in a little detail. It is specified in that new Act that when the Company issues its prospectus, there should be 3 items specifically mentioned. No. 1 is preliminary expenses. No. 2 is the capital required for building machinery and property.

Mr. Davar.—Yes.

Mr. Rahimtoola.—Property includes machinery and land if you have to purchase land for buildings and the third item is the working capital.

Mr. Davar.—Yes.

Mr. Rahimtoola.—Suppose we say preliminary expenses about Rs. 3 lakhs and we say property, building and machinery Rs. 35 lakhs, and working capital on an average Rs. 7 lakhs. That means we float a Company with Rs. 45 lakhs specifying different heads and I understand that the working of it would be that these moneys are allocated to the uses to which it has been specified.

Mr. Kapadia.—The moment the Directors do that, they admit that the concern can be floated with so much working capital in a reasonable state of efficiency. That is the point.

Mr. Rahimtoola.—You want to get over the difficulty of finance by saying that having provided in the share capital, the working capital required, you will not require either deposits or money from the banks.

Mr. Kapadia.—If we require further funds, then we can mortgage our block or our stock.

Mr. Shroff.—Or the Company might have attained credit or standing and it may get deposits from the public.

Mr. Rahimtoola.—You want to answer the question raised by the second signature by saying that this new system should be prevalent.

Mr. Davar.—Not only does it meet the contention about the second signature, but it does away with the necessity for the existence of the Managing Agency system in future.

Mr. Kapadia.—We say in future it will not be necessary for Companies to be floated on the present basis of the Managing Agency system, if the promoters take the reasonable precaution of floating their concerns with sufficient share and working capital.

President.—Assume for the moment that this particular provision of the English Companies Act is enforced in this country, the effect of that will be that no form of application for shares could be issued by a Company unless that particular form of application is issued in the prospectus on these lines. That prospectus would state what the Directors consider the minimum amount necessary for property, working capital, etc. If at present the promoter of a Company which is going to be under the Managing Agency issues a prospectus on these lines stating the minimum amount required under the various heads, I want to know precisely in what respect the position of the investor would be different now from what it would be under the existing system.

Mr. Kapadia.—In this respect it would be different. Then it will not be necessary for the Managing Agent to give any guarantee. Supposing a new Company is floated to-day and a prospectus is issued in which it is stated that Rs. 10 lakhs is required for the block; Rs. 5 lakhs is required for the working capital and for the purpose of obtaining certain rights and a lakh of rupees for preliminary expenses. That means Rs. 18 lakhs. If the share capital is kept at Rs. 18 lakhs or Rs. 19 lakhs, the intending investor will see that the Company is being floated with sufficient share capital.

President.—It does not follow unless I am very much mistaken. The only thing that the prospectus does is to give what in the opinion of these promoters is a reasonable estimate for these various things.

Mr. Kapadia.—The estimate of the promoter is the estimate upon which the investor will rely, unless the promoter has gone wrong in the estimate.

President.—What I mean is this: he has not gone wrong in his estimate; his estimate is correct, but actually the amount he has been able to get in the form of share capital is considerably less than the minimum.

Mr. Davar.—Then he will not be allowed to start a Company. Under such circumstances there will be no need for a Managing Agency.

Mr. Shroff.—The idea is very sound—have sound concerns, or no concerns.

President.—You have to read sections 33 and 30 together.

Mr. Kapadia.—Yes.

Mr. Boag.—Is it your contention that the Cotton Textile industry in Bombay on the whole is undercapitalised?

Mr. Kapadia.—We hold the view that where financial difficulties have been experienced, those difficulties barring the present times have been generally experienced in the case of concerns which have been undercapitalised.

President.—Undercapitalised in the sense that an insufficient portion of their capital has been derived in the form of share capital.

Mr. Kapadia.—Yes.

Mr. Shroff.—The exaggerated specimen is provided by Sholapur.

Mr. Boag.—We are confining ourselves to Bombay.

Mr. Shroff.—I will take the Assur Veerjee Mills, Limited.

President.—You want to ensure that a sufficient amount of share capital or debenture capital is secured. The only trouble is in our country a decision of that kind would considerably hinder the industrial development.

Mr. Shroff.—As regards the United Cement Company this is how they have provided—Rs. 24 lakhs for the block and Rs. 8 lakhs for the working capital.

President.—I am very glad the Bombay Shareholders' Association is prepared to approve of this arrangement, because I do feel that if capitalisation is going to proceed on these lines, then it would ensure healthy lines of development in industries.

Mr. Davar.—We make bold to say that this can be easily done in our own country.

Mr. Kapadia.—I will give you the instance of a new Cotton Company. A cotton mill was recently floated in the Hyderabad State called the Azam Jahi Mills, Limited, with a share capital of Rs. 30 lakhs. Debentures were issued for Rs. 18 lakhs. Rs. 12 lakhs worth of share capital was taken by the Osmanshahi mills under the same agents. The latter had not got the necessary capital to buy the shares. Therefore they in turn had to mortgage their property for the purpose of purchasing the shares in the other mill. Is that the sort of floatation to be allowed? Then if the Managing Agents come forward with a claim before the Tariff Board that they have to give the guarantees, can it be looked upon with sympathy? Here you will find they are mortgaging two concerns with one creditor.

President.—The more the merrier.

Mr. Kapadia.—The quality of the thing has got to be looked into. When we rose, you asked for a copy of the Green Committee's report. I have got it here and you can keep it for some time (handed in).

President.—This is a committee appointed by the Board of Trade.

Mr. Kapadia.—Yes. That Committee recorded evidence and then submitted this report to the Board of Trade. On that report, the Board of Trade introduced in Parliament the English Companies Amendment Act.

Mr. Davar.—There was a Committee called the Whenbury Committee similarly appointed some years ago.

Mr. Kapadia.—Then you asked me to show you the correspondence with regard to the London Stock Exchange not allowing dealings in shares of certain Companies. Here is a letter from the Secretary of the London Stock Exchange which I shall read with your permission:—

COMMITTEE ROOM,
THE STOCK EXCHANGE,
London, 27th March, 1929.

J. J. KAPADIA, Esq.,
Honorary Secretary,
The Bombay Shareholders' Association,
Agakhan Building, Dalal Street, Fort, Bombay.

Dear Sir,

I beg to acknowledge the receipt of your letter of the 8th instant and to say that the Committee do not permit a Company which desires an official quotation to exercise a lien of any sort on a fully paid share. Hence

a Company may not refuse to transfer a share out of a transferor's name on the ground that such transferor is, for some reason, indebted to the Company.

Similarly as regards a transfer to a person of whom the Directors disapprove, the Committee may permit such power to be exercised in respect of a partly paid share—the Directors must accept a transfer of a fully paid share to any person except an infant or person under legal disability.

I am, Dear Sir,
Yous truly,
(Sd.) A. H. F. GREEN,
Secretary.

President.—Will you send copies of that to the Board?

Mr. Kapadia.—Yes. Then, we referred to the floatation of the two cement companies in Bombay without managing agents. I have found out the necessary particulars. Here is the prospectus of the United Cement Company. I tender a copy of that to the Board. There are no managing agents. It was ultimately changed into a public company.

President.—When was this floated?

Mr. Kapadia.—1928 or 1929. Then the Okha Cement Company was floated. I have been able to get a copy of the prospectus issued by that Company. There are no managing agents. The capital has been fixed at Rs. 30 lakhs and the shares were fully subscribed. I was myself a shareholder of the Okha Cement Works.

Mr. Rahimtoola.—I will now take up the point where we left last time. We were discussing the question of managing agency system. As regards the public limited liability company, I find from the representation that you have submitted that your complaint against the managing agency system is somewhat more keen as regards Ahmedabad. You have said that there are occasions in which it is found in the Articles of Association that Directors are prevented from doing certain acts. These are, as you have told us, recent companies floated with those powers which are taken away from the Directors.

Mr. Kapadia.—I came across those things while reading the agency agreement clauses and I thought that it would be worth our while to bring them to the notice of the Board.

Mr. Rahimtoola.—I am coming to that. I want to differentiate between a public company and a proprietary or a private company. In public companies the system is different. In the proprietary concerns and the concerns like those of Ahmedabad, there is not one managing agent at all. The managing agency is divided into 16 annas and those who are Directors are also having a share in the managing agency system.

Mr. Kapadia.—I shall tell you what it is. There are three things to start with—"A" a mill Company, "B" the managing agency firm and "C" the managing agent. Now the mill company is proposed to be floated. "B" is the managing agents firm, but the main party who is responsible for managing the company is "C" the managing agent. If you will refer to the agreement you will find that the agency firm has delegated all powers of management to a particular individual.

President.—That you find not merely in the new agreements but also in other Ahmedabad agreements.

Mr. Kapadia.—Yes. The power to manage is vested in a single individual. No doubt there is an agency company. But the agency company being a private limited company has delegated all powers of management to a single individual. Therefore in essence there is no difference.

Mr. Rahimtoola.—Do I understand that your opinion or your point of view is that though there are a number of people who share the profits

with the managing agent according to the proportion of the share, they are all sleeping partners as far as the management is concerned.

Mr. Kapadia.—It is laid down that that man will be solely responsible for management and nobody—no member of the private limited company—shall have any power to interfere in the management of the mill by that man.

Mr. Rahimtoola.—In spite of having that provision, people have become Directors. They have allowed themselves voluntarily to be deprived of the powers which the ordinary Board of Directors possess.

Mr. Kapadia.—Yes.

President.—Supposing you have a managing agent in Bombay who, let us say, has assigned part of his interest in the managing agency to 10 other companies: he gets 50 per cent. of the remuneration of the managing agent and the other 50 per cent. goes in various proportions to other people. If you had a case of that kind, in effect would that be different from this Ahmedabad system?

Mr. Kapadia.—It would be. We had that case.

President.—I am thinking of that case where a gentleman got 3 or 2 annas share, if I remember correctly, in the managing agency. As regards the way in which it actually operates, is there any difference?

Mr. Kapadia.—There is no difference. So far as shareholders are concerned, he is a sleeping partner.

President.—From the point of view of actual working, the position would be the same?

Mr. Kapadia.—Yes, in Bombay as well as in Ahmedabad.

President.—In Bombay there is only one managing agent but he has assigned his interest.

Mr. Kapadia.—He has sold out his interest—2 or 3 annas share in the profit he has sold out. That is all. It is not a regular assignment.

President.—I do not know the legal authority of it. If I assign for a consideration, is it different from selling?

Mr. Kapadia.—It would have to be an assignment out and out, so, that the Company would be obliged to recognise the assignee as the agent.

President.—The Company won't recognise the assignee as the agent because the assignee in this respect is a sub-partner.

Mr. Kapadia.—That is, the position of the purchaser is that of a sub-partner.

President.—A sub-partner whose interests are confined to rights and not to the duties. So the position would be practically the same.

Mr. Kapadia.—Yes, we have instances of other kinds.

Mr. Rahimtoola.—I want to know whether your Association has any objection to the practice prevailing in Ahmedabad about the division of shares in the managing agency system from the very start.

Mr. Kapadia.—To begin with, we are not in close touch with Ahmedabad but from the literature that we have read we find that in the present conditions of Ahmedabad, the system seems to have worked all right. The main merit of the Ahmedabad system—I am speaking personally because the Association has not tackled that point—lies in the fact that certain individuals agree to deposit with the mill companies for a certain number of years certain amounts.

Mr. Rahimtoola.—For working capital?

Mr. Kapadia.—Yes, with the result that the mill company does not starve in respect of working capital. That seems to me to be the main merit of the organisation of the managing agency system in Ahmedabad.

Mr. Rahimtoola.—I am now talking in particular about the division of the managing agency into various parts in the shape of profits. You have made a point which I want to make clear that such an arrangement should not be allowed without the consent of the shareholders.

Mr. Kapadia.—We say that no provision in the Articles of Association should take away the ordinary rights of superintendence and control which are generally vested in the Directors. That is all our complaint. If however provisions are inserted, they should be declared invalid.

Mr. Rahimtoola.—As far as those companies are concerned?

Mr. Kapadia.—Yes.

President.—I dare say you are putting it on public grounds.

Mr. Kapadia.—Yes, on public policy.

President.—Supposing the interest is assigned and the agreement is not assigned, in what way does it affect adversely the assignee?

Mr. Kapadia.—Where the Articles provide that the Directors shall not be entitled to do certain acts I say that such provisions are repugnant. They reduce the Directors' power to a nullity if I may say so. It is the Directors who are responsible for the management of the Company. The moment the Directors are deprived of certain essential powers vested in them, these provisions are not in the best interests of the Company.

Mr. Davar.—And particularly because the Act provides that there shall be two Directors.

Mr. Rahimtoola.—Coming to the question of profits, is it not the general practice prevailing in the city of Bombay that the managing agents charge a commission on profits?

Mr. Kapadia.—As a general proposition I am prepared to say that the general practice in Bombay is to charge commission on profits.

Mr. Rahimtoola.—We have certain exceptions in which over and above the profits they are charging a commission on sales. One firm of managing agents in particular has certain shares. But you admit that the general practice is to charge a commission on profits?

Mr. Kapadia.—Yes, subject to what we have stated in our representation. Those instances are not exhaustive. If you will pardon me, I would like to say that I have appended a note saying that those instances are not exhaustive.

Mr. Rahimtoola.—You have a fairly long list?

Mr. Kapadia.—If you want an admission from me. I have to make a guarded statement. I say that there are several cases in which the managing agents are interested otherwise than as managing agents.

Mr. Rahimtoola.—I am not talking about that point. I think you have misunderstood me. My point is this. I am not taking into consideration at present the question of office allowance or the question about the minimum commission. I want to understand whether the general practice in the industry is that the managing agents charge commission on profits.

Mr. Kapadia.—I am prepared to say as a general proposition that the general practice in the industry in Bombay is to charge commission on profits.

Mr. Rahimtoola.—I come now to the details. As regards one of the details that you have given in Appendix A, I want to know whether you have verified it recently.

Mr. Shroff.—There is a very small error in regard to Kurla mills. We understand that their agreement was revised a couple of years ago. We have not got their latest agreement. Beyond that, I don't think there is anything wrong.

Mr. Rahimtoola.—I simply want to know whether you have made enquiries after you have given this statement or whether you have just copied from the Articles of Association?

Mr. Kapadia.—Our main authorities have been the Articles of Association and the agency agreements.

Mr. Rahimtoola.—But they need not be up to date.

Mr. Kapadia.—That is not our mistake. This copy I obtained from a shareholder as my remarks on the copy will show. If the managing agents do not attach a slip showing the revised arrangements, the mistake cannot be laid at our door.

Mr. Rahimtoola.—That may not be quite accurate. You have obtained it from a shareholder who may have it in his possession for a number of years.

Mr. Kapadia.—The Articles of Association can only be obtained by shareholders. I got hold of a shareholder and asked him to sign a letter of request. I sent my peon with that letter. The copy was given to me on behalf of that gentleman.

Mr. Rahimtoola.—Do I understand that the copy was obtained recently from the Company?

Mr. Kapadia.—Yes.

Mr. Rahimtoola.—You have made the shareholder an instrument to obtain a copy from the Company?

Mr. Kapadia.—Yes. I find that the Articles of Association lay down that there shall be a commission of so many pies on production.

Mr. Rahimtoola.—And on sales?

Mr. Kapadia.—I prepared my Appendix from these Articles. The Mill-owners' Association have got a copy of this. If there are any mistakes in our table, we are certainly prepared to admit those mistakes and make corrections accordingly.

Mr. Rahimtoola.—I wanted to ask you whether you took those figures from the Articles of Association and Agency Agreements.

Mr. Kapadia.—They are a sure guido because it is they that empower the agents to draw the commission. I went through all the Articles and Agreements and prepared this table. If there are two or three mistakes, we are prepared to set them right.

Mr. Rahimtoola.—I would like you to define the exact position of the managing agent with regard to the company because in certain instances you will find that the managing agents get a fixed office allowance and in certain instances the managing agents get a minimum commission which as we discussed yesterday amounted to a wage earning. I want to know what is the exact relation of a managing agent with the Company?

Mr. Kapadia.—We have explained that position in our representation.

Mr. Rahimtoola.—The managing agent is a virtual master of the Company?

Mr. Kapadia.—He is a virtual master of the Company for the simple reason that he has arrogated to himself very wide powers of management. There is nothing in the Indian Companies Act which defines the rights and duties of the managing agent although the institution of managing agency has been in existence in India. That is our main complaint. In the whole Act the managing agent has not been defined. The weakness of the Indian Companies Act is that while the question of managing agency has been recognised in India, the Act does not define the rights and functions of the managing agent *vis-a-vis* the Company, nor does the Act define the functions of the Board of Directors *vis-a-vis* the managing agents.

Mr. Shroff.—As a matter of fact the managing agent as such is not mentioned at all in the Indian Companies Act.

Mr. Davar.—When the Act of 1913 was passed, there was a proposal to introduce a Chapter dealing with these managing agencies but owing to a certain hubbub, it was dropped. The managing agent is his own creation.

Mr. Rahimtoola.—It is consistent with the Indian Companies Act?

Mr. Davar.—Not at all consistent. It is inconsistent. The position at present created is inconsistent with the spirit of the Act, if you look at it that way. What does the Act aim at? The Act says that the company should be managed by representatives of its proprietors. The Directors are

supposed to do so. You have to find from the materials placed before you whether the functions are performed by the Directors or the managing agents.

Mr. Kapadia.—The central fact remains that the Indian Companies Act does not define the rights and functions and duties of the managing agents *vis-a-vis* the company and the rights, functions and duties of Directors *vis-a-vis* the managing agents with the result that any managing agent is today at liberty to incorporate in the Articles of Association any clause that he likes, although that clause is most repugnant.

Mr. Rahimtoola.—You have also taken here a stand as to what should be the exact duties of the managing agents. You have described one or two things which he should not do. One is that he should not become a Director in other companies; the representative of the managing agents should not become a Director and the second point is that the management should not have more companies under their management.

Mr. Kapadia.—Yes.

Mr. Rahimtoola.—I want to know what experience you have to suggest these two restrictions?

Mr. Kapadia.—Very bad and very sad.

Mr. Rahimtoola.—It will be interesting to know them.

Mr. Kapadia.—My experience of managing agents acting as directors of other companies is very bad and very sad. Generally speaking a managing agent in Bombay has got many irons in the fire, he can't attend to them all: he has got 5, 6 or even 10 companies to attend to and if he has to devote his mornings and evenings in turn to all these companies you will find that he will not be in a position to attend to the interests of his company faithfully and fully. Therefore, what business has he to be the director of other concerns not in the same industry?

Mr. Rahimtoola.—It is a very big statement to make.

Mr. Kapadia.—I say this with the utmost responsibility and I am prepared to substantiate it. You will give me some credit for a certain amount of practical experience of management of mill companies in Bombay and I say with the utmost responsibility and with my experience,—and I think my colleagues will bear me out,—that in those cases where managing agents have gone in for directorates of other concerns the result has been disastrous to the shareholders.

Mr. Rahimtoola.—Do I understand that going for half an hour or one hour to a company meeting once or twice a week has come in the way of proper management?

Mr. Kapadia.—When the managing agent is not able to spare the necessary time to look after his own company does it require any argument to convince the Board that if he allows his energy and attention to be diverted to other work the result will be very bad?

Mr. Rahimtoola.—Is it not a question of opinion whether he finds time or does not find time?

Mr. Kapadia.—This is a question of plain fact.

Mr. Davar.—How could you expect a managing agent who has got his own business, who has got so many of his companies to manage and is at the same time looking after public affairs and taking some part in public life, to carry on his responsibilities properly? Take another case where you become a director: let us say X the managing agent of one mill becomes the director in another mill which is a rival . . . . .

Mr. Shroff.—If you think that the duty of a director ends by sparing half an hour in a Board meeting, then that is exactly our grievance, if directors are guided by this construction of their duty as directors then it is really a sad day for the investors!

Mr. Rahimtoola.—I am talking of Board meetings as such.

Mr. Shroff.—There must be some preparation for that. They must study the papers before they come to the meeting. Take for example a director of the Tata Iron and Steel Company: he must be given some time to read the papers before the meeting is held if he is to discharge his duties conscientiously. He is expected to have gone through the papers.

Mr. Kapadia.—Even at the cost of being described as funny, I may tell you how Board meetings are held in Bombay. I know of a case where a certain director in the Board room after every few minutes started taking out his watch from his pocket and as soon as he found that he had given 15 minutes he stood up and said "The rest of the agenda can be disposed of without me: please manage, I have to attend another meeting"!

Mr. Rahimtoola.—The meetings are not open to the public and you cannot know that as a fact?

Mr. Kapadia.—I have seen this with my own eyes because we were invited to a Board meeting where this farce had been played; he took off leaving things to the managing agents.

Mr. Shroff.—When once in 12 months they are asked to attend a meeting they make themselves conspicuous by their absence.

Mr. Rahimtoola.—Now we come to the question of the merger scheme. You have devoted two pages on the merger scheme and you rely more or less, I take it, on the newspaper reports which you have quoted?

Mr. Kapadia.—We have relied on the newspaper report but if you want a report better than the newspaper report I have got one before me by Mr. Arno Pearse. Writing in his book he says that several managing agents whom he consulted stated that after the grant of this protection managing agents will go on in their old way.

Mr. Davar.—This very same gentleman, I understand, is quoted by the Millowners' Association as authority in favour of managing agents while making out a case against Japan. His observations in connection with the industry are quoted and he is declared as a wellknown critic.

Mr. Kapadia.—This is what Mr. Pearse says "In some quarters it is feared that the recent addition in protective duties will again cause a cessation of the negotiations that have been going on in that direction as some of the managing agents are loath to give up their independence and hope that by means of additional duties they will be able to exit on their former methods". I am not going entirely by newspaper reports; I am going on the basis of the authority of a wellknown writer who has been described by the Millowners' Association as an independent critic. What I am trying to point out is this that those who are in charge of the industry, the moment they get protection, forget the promises they have made.

President.—All that I am concerned to point out is that you may be right to some extent but the fact that a similar scheme tried elsewhere under entirely different conditions failed seem to suggest that there are certain inherent difficulties. You have got to take that into account.

Mr. Shroff.—Why should not the investing public be given an opportunity to study these difficulties?

Mr. Kapadia.—Has the Millowners' Association ever cared to enlighten the public with all the facts which led to the failure of the merger scheme?

President.—They have given us a confidential statement about it and I think the Board would probably be in a position to make some kind of statement about it.

Mr. Kapadia.—All I can say is that the particular quotation from the "Times of India" reflects the popular mind.

Mr. Rahimtoola.—You are not in possession of the real facts which are at present being treated as confidential. I want to know whether your conclusions are based manly on the "Times of India" report which criticises partly Government and partly Mr. Arno Pearse?

Mr. Kapadia.—And from what we learnt after coming into personal contact with several managing agents. These things were discussed openly in clubs.

Mr. Davar.—May I refer in this connection to paragraphs 65 and 66 of the Bombay Millowners' Association's representation where they say "Independent observers like Mr. Arno Pearse have pointed out that while Japan operatives work as many machines as can be attended under fair conditions, labour in India is indolent by nature, is steeped in usages and is ruled by caste............". In another place they quote the same authority (paragraph 67).

President.—There is one point in connection with the amalgamation question. Supposing the amalgamation scheme had materialised and, let us say, had about 30 mills in Bombay included in this amalgamation scheme and had worked for all practical purposes as a single unit, in actual working what would be the difference between 30 mills working under one combine of that kind and 30 mills working under the same management? Supposing you had a managing agent who was in charge of 30 mills and you had a combine consisting of 30 mills what in actual practical working is the difference?

Mr. Shroff.—Let us take the question of management. Management of such a combine would be placed in the hands of the pick of the industry, that is to say five or six groups combining together all the pick in the management would be taken out to manage the combine and that would naturally ensure a very high degree of efficiency in the first place.

President.—If you could succeed in ensuring that the administration would be in the hands of the very best men! As a matter of fact the whole difficulty even with regard to the managing agency system is that it is really in the hands of very few first class people in the real sense for the responsibility to be assessed. If you have a satisfactory kind of personnel even the worst constitution in the world would work well. So leave alone the question of personnel. I would like you to talk purely on administrative questions.

Mr. Shroff.—In any scheme of combine or amalgamation there is always the advantage of pooling of talent and resources which is a very great advantage in any scheme of amalgamation. Another thing is a considerable saving in overheads.

President.—I was thinking of another thing. Yesterday, for example, when we were discussing the question of the relative merits of a managing agent and a managing director it was assumed that the remuneration drawn by the managing agent to the extent he was concerned in the management was the remuneration that would be drawn by a part time director. In the case of an amalgamation which is in charge of 30 mills practically what happens is that the cost per mill would be the cost that the mill would incur if it had a part time managing director; therefore as far as the question of overhead is concerned in practice there would be no difference.

Mr. Shroff.—Why not? There would be a great difference. For instance the 30 mills which might combine might be assumed to be under three or four groups. Each of these groups would in the ordinary course have to employ the services of highly paid staff for the superintendence of the mills. Superintendence of mills in a combine would be vested in one or two men of first class ability and office establishment should certainly show a very great saving and then there are other great advantages.

President.—As far as office establishment is concerned after all even if you had an amalgamation scheme mills would have to work as separate units, there is no possibility of all the mills being rolled into one unit, and you will have to employ local staff at each mill so long as each mill is working as a separate unit.

Mr. Shroff.—I mean the agent's office establishment.

President.—But there would be the amalgamation office establishment.

Mr. Shroff.—But that may be one in place of five or six.

President.—Supposing you had one managing agent who had control of 30 mills.

Mr. Shroff.—That is not possible to assume as one managing agent will not have the resources to run 30 mills.

President.—Let us say 20 mills.

Mr. Shroff.—Then our objection would remain because a man enjoying the heavy patronage of running 20 mills would be liable to great temptations so that the whole merit of the amalgamation would disappear.

President.—I am thinking of a scheme under which 15 to 20 mills have been purchased by a single financial organisation and that financial organisation is responsible not merely for controlling its finances but also for controlling its administration. Supposing you had an arrangement of that kind and that arrangement brings down overheads, to that extent at any rate it partakes of the character of a single management controlling 20 companies because the central office establishment is the same. I admit that a combine is better than a managing agency administering a certain number of mills, but to a substantial extent the kind of economies derived from an amalgamation is the kind of economies which can be derived from this arrangement.

Mr. Shroff.—But there is an inherent objection to having managing agents: overheads will make a difference.

President.—As I look at it, after all the Bombay textile industry is going to depend very largely on the way in which it can bring down its costs—one is labour, the second is overheads. I don't want to talk about labour. As far as overheads are concerned it seems to me that the only way in which you can bring down overheads is by centralising as far as possible its superior office establishment. Now, the centralisation of superior office establishment may take place to a considerable where you have one man managing a large number of mills, and to the extent you are able to centralise your establishment you bring down your overheads. If you have a single combine and the amalgamation company in charge of various units, it seems to me that the services that company is performing are essentially of the same character.

Mr. Shroff.—You have at present one managing agent with 13 concerns under his management, another with 11 or 12, but you have not seen the advantages which one would naturally expect from a combine of this nature.

President.—I have read about various cases of large amalgamation schemes which have failed precisely for that reason. When you approve of amalgamation and disapprove of managing agents in certain respects we might have conflicting views. The trouble about the amalgamation scheme is that when the industry in which the amalgamation scheme is working is passing through a period of severe depression it is then that the amalgamation scheme fails because you find demands being made upon the central organisation from various units which are passing through the same kind of difficulties.

Mr. Shroff.—There are strong combines and weak combines.

President.—You take this question of interlocking of funds to which you strongly object. I find that in various amalgamation schemes that is precisely one of the difficulties. On the other hand one thing to which you object is that a managing agent is in charge not only of textile mills but of other mills. I suggest to you that one of the reasons why Calcutta managing agents are doing better than the Bombay managing agents is that Bengal has a variety of industrial resources—steel, jute, tea, coal and so on—and in a time of difficulty you don't have all these various industries passing through the same kind of difficulty. If there is a very severe demand made by tea because tea is passing through a period of depression, the managing agent is able to meet his demand from the surplus which he gets from other kinds of industries. In Bombay, on the

other hand, you have only the textile industry and therefore when the industry is passing through a time of difficulty the managing agent is pulled from all sides.

Mr. Davar.—The advantage of a combine will be that there is only one company, and if the management is in difficulties it is forced to go outside and get the finance whereas in the case of 15 mills under one agency he can do interlocking very easily and thereby ruin all the concerns.

President.—In the case of amalgamation it is possible you can provide a really satisfactory kind of personal security for the management. That is to say it is really a method of selection which would be possible under the amalgamation scheme which might make its working different from that of a Managing Agent. It may be that, but actually the way in which the administrative machinery works, I do not know if there is much difference.

Mr. Shroff.—The very fact that 4 or 5 names of gentlemen who interested themselves in the possibility of a merger scheme in Bombay inspired so much confidence amongst Bombay investors that when it was told that a particular gentleman would look after the technical side; another gentleman would look after finance and so on, investors take it in this light that now the industry was going to pass into safe hands, I consider that to be the greatest advantage of the combine obtaining the best available management.

President.—Since you have definitely supported the amalgamation scheme, I cannot discuss the actual details of that, because it has been given to us in a confidential statement at the present stage. I have a sort of feeling—unless I am very much mistaken—whenever you have large amalgamation schemes of this kind, the process by which the amalgamated Company takes over the various units in their scheme generally leads to overcapitalisation at the start. If you want to get 30 or 40 mills under your control, it is essential for administrative efficiency that all these mills should go into the scheme. To that extent the object of the amalgamation scheme is defeated. Therefore you are tempted even at the risk of paying a little more than the current market value of the property. You are tempted to increase your capitalisation to a point where it might easily reach the stage of overcapitalisation. I do not know whether you are familiar with the history of amalgamation schemes. You will find in very many cases there has been serious overcapitalisation. There are a lot of mills which are included in the amalgamation scheme, but they may have a lot of old machinery. You buy and scrap it. That part of the capital which represents scrapped machinery will be dead capital.

Mr. Davar.—That is what we meant.

President.—That is to say capital does not operate.

Mr. Shroff.—Yes. If the public or shareholders are taken into confidence regarding some of these difficulties, it may be possible to arrive at some solution of the question. Why should investors who have staked so much money be denied information on the point?

President.—That is a different question. I am speaking at present on the intrinsic merits of an amalgamation scheme. To the extent that you approve of that scheme I thought I was justified in raising this question. I am keeping an open mind on the subject. But at present I do not know if I should be justified in definitely disapproving of the decision of those particular millowners who had dropped the amalgamation scheme, because I feel there is a great deal to be said on both sides.

Mr. Shroff.—Supposing a general merger scheme is not possible, why should not an attempt be made in the same direction in particular branches of the industry.

President.—I am not denying that there are possibilities of combined arrangement, although not in the sense of definite amalgamation. When

you are thinking of a definite merger scheme combine, the proposition seems to assume a very different aspect.

Mr. Shroff.—It can neither be integral nor horizontal, but my point is this that for certain services the mills can get together.

President.—That I don't dispute.

Mr. Shroff.—Questions like muccadam service.

Mr. Davar.—You talked about the dead capital. That would be the case if you take concerns at a higher price than what they are worth. I know there was some difficulty of that kind discussed in connection with the merger scheme. Our position is why take up entirely bad concerns which have no intrinsic value and which have lost their intrinsic value up to 10 per cent. If they want 50 or 60 per cent. instead of taking in the merger, drop them. They are not likely to constitute formidable rivals to the merger.

President.—Therefore the difficulty is this if you were dealing with an absolutely clean slate, that would be all right. But you have got to reckon with the realities of the situation. Supposing there is a Managing Agent who have got 12 mills of which 6 mills are thoroughly antiquated mills and 6 are good mills and the amalgamation is trying to negotiate with this particular Agent, do you think that he will part with 6 good mills leaving out 6 bad mills in his hands?

Mr. Davar.—I understand.

Mr. Kapadia.—With regard to the remark of Mr. Boag about interlocking investments, I do not know whether Mr. Boag intended to convey that the interlocking investment was in the best interests of the concern. We have placed specific instances of interlocking investments with names and the amounts involved and we should be highly obliged if the millowners could lay their hands on a single instance which has done good either to the advancing Company or to the Company to which it has advanced. In one instance the thing has been most revolting. In that case where one Company's shares were taken up by the sister mills, the capital obtained from the sister mills was utilised for the purpose of paying the banks who were the creditors of that Company and relieved the Managing Agents of their guarantee. Here the case was to rob Peter and pay Paul. Our information is a portion of the funds obtained were appropriated by the Managing Agents. This was on account of the loan which they had advanced to the concern.

Mr. Davar.—Another point is that the money belonged to the shareholders of that concern. Without their being consulted these things are done.

Mr. Rahimtoola.—I would like now to raise the point regarding the position of the shareholders. We have heard two arguments. One argument is that if the Managing Agents pay a good dividend, they are found fault with for not providing sufficient money for depreciation and reserve. On the other hand if they provide necessary money for depreciation or reserve, the Directors are blamed for conservative policy for not paying dividends to the shareholders. I am now putting to you this point in connection with the question of protection which the Tariff Board is considering. I would like to know the position of the shareholders.

Mr. Kapadia.—We have made it very clear in our representation that after the necessary provision for depreciation, the profits of the industry should be distributed among shareholders. Depreciation first, dividend next.

Mr. Rahimtoola.—Would the shareholders be satisfied with 6 per cent. or 8 per cent. or 10 per cent., because there is an allegation that too much dividend is being paid and that mills are suffering at present from the fact that they didn't foresee that bad times are coming?

Mr. Kapadia.—On that point there has been considerable discussion and the Millowners have pointed out in several cases that that allegation is not absolutely correct.

Mr. Rahimtoola.—Do you agree with the Millowners' Association on this question.

Mr. Kapadia.—We agree with the Millowners Association that dividends were paid according to the situation then existing. The Millowners didn't know that such a severe depression would set in.

Mr. Rahimtoola.—That is exactly the complaint.

Mr. Kapadia.—The Tariff Board has stated "It must be said to the credit of the millowners they have laid by reserves; who knew that this depression was coming along".

Mr. Shroff.—In those boom years it cannot be contended that any organised pressure was brought to bear upon Directors by the shareholders to distribute large dividends.

Mr. Rahimtoola.—I don't say that. I am only putting a point of view with reference to which I should like to know exactly the position of the shareholders.

Mr. Kapadia.—There is one thing to which I would like to draw your attention. We should not go on the percentage of dividend on the share capital. It is not proper to say that this mill has declared 100 per cent. We have got to take into cosideration the amount of capital invested in the industry. That is to say what has the particular mill earned having regard to tho moneys actually invested.

Mr. Rahimtoola.—Including the block?

Mr. Kapadia.—Yes and the reserves. The Thackersey Moolji group of mills have issued their balance sheet. The Hindusthan mill has paid Rs. 100 by way of dividend. It is absolutely superficial to say that it is a splendid dividend. If you take into account the total capital invested, the dividend works out to a very low figure.

Mr. Rahimtoola.—What is the low figure?

Mr. Kapadia.—4 to 5 per cent. on the capital invested in the Company. I am prepared to prove that by figures. Merely because Hindusthan paid Rs. 100 on a share of Rs. 1,000, it should not be assumed that it is a splendid return.

Mr. Rahimtoola.—All the reserve funds are moneys invested by the shareholders in the Company?

Mr. Kapadia.—Yes. You must take into consideration the money invested in the concern. What has the Hindusthan earned on the moneys invested in the concern? On that point Messrs. Ferguson and Company were examined in the 1926 Inquiry and I find from their evidence in the last enquiry that they did state that that ought to be the correct basis of calculation.

Mr. Rahimtoola.—I want to ask you about the profit and loss account which you have asked that the millowners should supply you. I understand the present practice is that some of the mills are supplying profit and loss account.

Mr. Kapadia.—Almost all the Bombay mills are attaching what they call a profit and loss account to their balance sheet. Generally mill Companies attach a profit and loss account.

Mr. Rahimtoola.—I want to understand another point and that is their supplying this information without your asking for it.

Mr. Kapadia.—Because the Articles lay down that along with the balance sheet a profit and loss account shall be attached. In almost all cases you will find that the Articles lay down that the Directors shall send to the shareholders so many days before the meeting a balance sheet and profit and loss account.

Mr. Rahimtoola.—Your point of view is that the profit and loss account as sent by the Directors or the Managing Agents does not give you satisfactory answers to some of the points you would like to know and therefore you want an elaboration of that statement?

Mr. Kapadia.—Yes.

Mr. Rahimtoola.—There is nothing new that you are asking for?

Mr. Kapadia.—No.

Mr. Rahimtoola.—Even in that statement you say that some mills are satisfying your demand. To that extent I want to know whether the point has at all been raised in a shareholders' meeting or outside and whether it has been considered against the interest of the Companies themselves to provide this.

Mr. Kapadia.—So far not a single mill has told us that the information which goes into the profit and loss account has operated to its prejudice. I gave the balance sheet of the Phoenix Mills yesterday. It is a very splendid profit and loss account. I have never come across a profit and loss account so informative as the profit and loss account of the Phoenix mills.

Mr. Rahimtoola.—Was that done through the instrument of the shareholders?

Mr. Kapadia.—They have been doing it for the last 20 years and in the manner in which it is written no complaint has been made by any Managing Agent at least to my knowledge that this profit and loss account has operated to the prejudice of the Company, *viz.*, that profit and loss account has imparted certain information to the competitor.

Mr. Rahimtoola.—I shall come to the third question which we have raised about the amendment of the Companies Act. You know that this is more or less a reply to the question which we raised, *viz.*, whether any provision of the Indian Companies Act requires any amendment. You have, I find, from the questionnaire dealt very exhaustively with this question and you have made a number of recommendations as to how and in what manner the amendment of the Companies Act should take place. Personally I find, though I can go through it in its details, I do not know how far the Board as such would be able to utilise this for the benefit of the industry. I would therefore like you to consider whether it would not be in the interest of the industry if the Tariff Board recommended that a Committee should be appointed to go into all the details that you have put forward and the details that may come forward from other people and to report on this question.

Mr. Davar.—For a general amendment of the Act?

Mr. Rahimtoola.—With reference particularly to the Textile industry.

Mr. Davar.—Then of course we should have no objection. Our only difficulty is that such an investigation would take a number of years. Even if Government wanted, they could not expedite it within less than 5 years.

Mr. Rahimtoola.—I don't think the Board can entertain any suggestion for going into the minute details of the Companies Act. You have dealt with this question exhaustively and I want to point out to you that though the Board may be prepared to go with you, it can be only dealt with satisfactorily by a separate Committee.

Mr. Davar.—We should be very grateful if the Board makes such a suggestion. It would be very useful. At least it would help us in one direction in bringing about the amendment of the Companies Act for which we have been looking for a long time.

Mr. Kapadia.—Let us make our position clear. The question is: has the deficiency in the Indian Companies Act in any way affected the development of the Indian Textile Industry? That is the question. We naturally thought that the most important deficiency in the Indian Companies Act was that the Managing Agency system was being allowed to work uncontrolled and unregulated. We have therefore divided our suggestions into two groups if you will pardon my referring it in detail. Our suggestions from 1 to 21,

page 16, are more or less in relation to regulating the Managing Agency system and it may be that no legal requirements may be necessary, but it can be done by administrative action.

Mr. Rahimtoola.—You say that you want some penal provisions to be made.

Mr. Kapadia.—I think you refer to item No. 15 out of the 21 suggestions that we have made—see page 18.

Mr. Rahimtoola.—Not that. You have made a general statement here.

Mr. Kapadia.—That is in reply to what question?

Mr. Rahimtoola.—You say in your replies to the Questionnaire on page 20 "We are convinced that these indirect sources of income have placed the managing agents in a position which cannot be reconciled with their duties and obligations to their concerns. The pursuit of such gains has in several cases had the pernicious effect not only of lowering the agents in the estimation of the shareholders but has also led to indifferent and inefficient management. We are therefore of the considered opinion that the managing agency system even in existing concerns can only be tolerated if the possibilities of making such gains are entirely eliminated by a legislative provision making it penal for the managing agent to derive directly or indirectly any income other than the prescribed agency remuneration and the interest or dividend on his financial stake in the concern".

Mr. Kapadia.—We stick to that position.

Mr. Rahimtoola.—You recognise the difficulty of the Board even if they agree to provide a penal clause mentioned by you yesterday in the Protection Bill.

Mr. Kapadia.—I want to make that point very clear. We hold the view that if on the evidence placed before the Board the Board comes to the conclusion that the things complained of do exist, then we submit that it is the duty of the Board to report to the Government that such a clause should be inserted for the purpose of preventing these abuses. That is the position that we have taken up. If the Board comes to the conclusion that that is not possible, we certainly expect the lesser recommendation from the Board to the effect that a Committee should be immediately set up for the purpose of examining the various amendments to be made to the Indian Companies Act with particular reference to the working of the managing agency system.

Mr. Rahimtoola.—With particular reference to the textile industry?

Mr. Kapadia.—Yes, with a mandate to the Committee to expedite its report and submit it to the Government of India within six months or a year. Our anxiety is this. We feel—we may be wrong and we will be glad if we are proved to be in the wrong—that immediately protection is granted, the managing agents will go on in the old, old ways. There must be some brake.

Mr. Rahimtoola.—Yesterday you were willing to concede three years.

Mr. Kapadia.—Yes, three years for the purpose of adjusting themselves to the recommendations of the Board. If the Committee reports within one year, then a Bill will have to be drafted and piloted through the Assembly which means three years.

Mr. Shroff.—What we should submit is this that simply on the ground that such a recommendation may be in the nature of a novelty, we hope the Board will not rule it out because the necessities of the case demand that.

President.—We have made novel suggestions in the past in one or two cases and I want to tell you what happened to them. The protection part of our recommendations was accepted by Government; the other suggestions made by the Tariff Board they said are under consideration and they have remained under consideration ever since.

Mr. Shroff.—I may assure the Tariff Board that as far as the Bombay Shareholders' Association is concerned, representing as it does the investing

community, it would feel very much satisfied provided the recommendation emanates from the Tariff Board.

Mr. Rahimtoola.—It is one thing to satisfy the Shareholders' Association; it is quite a different thing to convince the Government of the necessity for such a measure.

Mr. Shroff.—It will make an impression.

Mr. Kapadia.—Public opinion will demand that the managing agents ought to set their houses in order if not by legislation, at least by executive action.

Mr. Shroff.—In the past enquiries, the recommendations of the Tariff Board which have not been given legislative effect have regulated the industries with the force of law. For instance, your insistence on maintaining a certain basic level of depreciation in the case of the Steel industry is a case in point.

President.—I had better make the position quite clear. As a matter of fact there is no provision in the Protection Act at all about that.

Mr. Shroff.—That is what I say.

President.—It is made possible because there is only one unit in the steel industry. It is open to Government to withdraw protection and nobody suffers. Where there are 350 units, the position is entirely different. That is the whole difficulty about the textile industry.

Mr. Kapadia.—We will be satisfied with the lesser recommendation.

President.—As far as you are concerned, you had better stick to all your major recommendations?

Mr. Kapadia.—We would. If the Board finds that it is not practical politics we will be satisfied with a lesser recommendation. As it is, we stick to our point.

Mr. Rahimtoola.—There is only one point on which I want some information and that is regarding the question of stores. You have laid great emphasis on this point. I wanted to ask you what objection you could have if the managing agents bought their stores from a firm with which they or one of their partners might be connected or effected insurance with a Company for which they were agents provided you got competitive rates? There is nothing to show that the rates which were paid by the Company were exaggerated?

Mr. Kapadia.—The past records show that competitive rates were not obtained. The record of the industry has shown that the interests of the industry have suffered.

Mr. Rahimtoola.—I understand that there is a separate office, a separate establishment altogether?

Mr. Kapadia.—Yes.

Mr. Rahimtoola.—Sometimes in London and sometimes in India. I want to know how far it is detrimental to the interests of industry or the mill?

Mr. Kapadia.—We have given details in the representation to show that the interests of the industry have suffered where managing agents either directly or indirectly are the stores suppliers or the machinery suppliers.

Mr. Rahimtoola.—They are not the only ones. I am not talking of managing agents being agents, but I am talking of managing agents being partners in concerns which deal with these things?

Mr. Kapadia.—That comes to the same thing. There they have other interests.

Mr. Rahimtoola.—It requires convincing the other partners.

Mr. Kapadia.—Supposing I am the managing agent of "A" Company and I have an interest in "B" Company which does stores business. My share of the capital in the "B" Company is 50 per cent.

Mr. Rahimtoola.—Say 20 per cent.?

Mr. Kapadia.—Human nature being what it is, I will be inclined to transfer the orders of the "A" Company to the "B" Company.

Mr. Rahimtoola.—Exactly, but the point is whether the "B" Company with 80 per cent. not your own would be prepared to give that at a favourable rate?

Mr. Kapadia.—If my purchases are confined to the "B" Company?

Mr. Rahimtoola.—That does not matter. The "B" Company must also earn something in order to give you.

Mr. Kapadia.—The question is whether the "B" Company has exacted from me prices which another merchant would not have done and we have found in actual practice that the "B" Company has exacted not competitive rates but higher rates. Take that cotton agreement and see clause C.

Mr. Rahimtoola.—I have seen that clause.

Mr. Kapadia.—The managing agents are to share in the surplus profit that may be made.

Mr. Rahimtoola.—Because the share is 50 per cent.; half and half means a great deal.

Mr. Kapadia.—The managing agents not only have the brokerage; they have commission *plus* something.

Mr. Davar.—There would also be temptation to order more stores than is necessary and to practice less economy because he buys them from his own concern.

Mr. Rahimtoola.—It is not his own concern in the sense that it does not entirely belong to him.

Mr. Kapadia.—With reference to our confidential note, paragraph 2, the third thing is something very novel and we do not know what the annual profit is going to be under this head because this being a private limited company, its accounts are not open to shareholders' inspection. It may mean anything; it may mean one rupee or one lakh of rupees per year.

Mr. Shroff.—You might also refer to another matter contained in the confidential note regarding the Stores Supply Company which was floated some years back.

Mr. Kapadia.—The managing agents floated a Stores Supplying Company and then they ultimately sold that to another company in which their holding was insignificant compared to the holding they had in their own company. The result was that whereas the previous Company in which the managing agents themselves were interested made large profits and distributed dividends of Rs. 5,000 on Rs. 4,000 paid up capital, the other Company within two years went to dogs.

Mr. Boag.—I want to ask you one question about the figures which you give on page 6 of your replies to the questionnaire. These figures show the total allowance and commission drawn by managing agents in various years. Take the last year 1930. If you divide the total figure Rs. 13,45,000 by the number of mills, the total remuneration works out to about Rs. 1,600 a month for each mill.

Mr. Shroff.—This figure has to be read side by side with the profit or loss figure for the year. In that year the industry made a loss of Rs. 94 lakhs without considering depreciation.

Mr. Boag.—I am looking at it from another point of view. This is the payment made by the mills for services of management irrespective of profit or loss. The mills are liable to pay for the services rendered by the management. Is that not so?

Mr. Shroff.—That is a contention which we dispute. The agents should not be entitled to anything beyond the commission on profit.

Mr. Boag.—You don't consider that the services rendered by management are entitled to a remuneration apart from the share in the profits.

Mr. Shroff.—No. We look upon the management as a body which must take the risk on an equal basis.

Mr. Boag.—I am putting the question in another way. What would you consider a reasonable remuneration for a managing director of a mill of a normal size?

Mr. Shroff.—We have already considered that question. It was brought to our notice by one of the members of our Committee. When we collected figures for a number of years we could blow the bottom of an argument of this character. If you take the figures for 15 years and find out the commission earned by the managing agents and if you assign a liberal scale of remuneration to managing directors . . . .

Mr. Boag.—I am asking you what would you consider a liberal scale?

Mr. Shroff.—About Rs. 2,500 to Rs. 3,000 a month. You will agree I think that it is a liberal scale.

President.—Would you consider that a reasonable scale?

Mr. Shroff.—Yes, for a good sized mill.

President.—That is to say for a whole time managing director employed by a mill say with an output of the value of somewhere about Rs. 30 lakhs a year.

Mr. Shroff.—Yes.

Mr. Kapadia.—I may point out that this Rs. 13,45,000 has been made up in many cases of minimum commission and the managing agents themselves have admitted that they do not charge the minimum commission when the mills make losses. Now what is the basis for that statement? Because they feel that morally they are not entitled to charge although they are legally entitled to a minimum commission. That is what they admitted before the Labour Commission. Still we find several instances in which the minimum commission has been charged. This Rs. 13,45,000 is partly made up of large minimum commissions.

Mr. Shroff.—If you like, we will give you a statement which will show that the managing agents have made Rs. 10 to Rs. 20 lakhs a year. It will take the life time of a managing director to earn that money.

President.—The precise character of managing agents' services—that theory is not accepted by you. Therefore it is not possible to have a discussion on that basis. If that theory is conceded then if the managing agent draws about Rs. 16,000 a year per mill at a time of depression, that Rs. 16,000 is a fixed wage that he draws in his capacity as manager. If in a boom period he draws a much larger amount than that, then it is the profit that he gets in his capacity as a capitalist.

Mr. Shroff.—You want him to benefit in both ways.

President.—Rs. 16,000 a year you don't call a big sum?

Mr. Shroff.—He is fully compensated by the fact that in fat years he would get money which a managing director would take many years to make.

Mr. Kapadia.—The shareholders go without a pie for a number of years.

President.—What we have to consider is this. It is no use bringing in the boom period. Let us shut our eyes to the boom period.

Mr. Shroff.—Let us take an economic cycle of 10 or 11 years.

President.—After all the present depression in its present acute form started, you might say, at the end of the year 1929, but the textile industry as compared with other industries in this country has been in a difficult position ever since 1924-25. I suggest that it would not be unreasonable for you to consider this question on the basis of 1925 to 1932. That, I think, would be a fair basis to take.

Mr. Shroff.—You are practically taking all the lean years.

President.—Just before that, the years were frankly boom years. From 1925 to the end of 1929, the level of prices of piece-goods was, you might

say, normal. Since 1929 the level of prices has been abnormal and what I am suggesting is that if you take a period before 1929 and take a period after 1929, you get a period which is not unreasonable as a basis of comparison.

Mr. Shroff.—May I point out that in 1928 the combined loss shown is Rs. 1,26 lakhs?

President.—That I quite understand.

Mr. Boag.—That was due to strikes.

Mr. Davar.—If you deduct the exceptional boom period, you ought to deduct also the exceptionally depressed period. That is what we would suggest. There was a strike period in the years you had taken. You could not possibly reckon abnormal losses made in the strike period. We must arrive at a period when the mill industry was in neither boom period nor in a depressed period.

President.—Then you have to go to a period before the war when the conditions were entirely different.

Mr. Davar.—We have to make some addition of percentages.

Mr. Shroff.—I think it is better to take a scientific basis—a cycle of 10 or 11 years. That will give you one or two good years and one or two bad years.

President.—There is no cycle which always goes down.

Mr. Kapadia.—Let us judge it from the commonsense point of view.

President.—My commonsense is different from yours.

Mr. Kapadia.—What I am pointing out is that it would be fair to take the case of a group of mills which have given the managing agents in the last year something like Rs. 2,80 lakhs.

President.—You are thinking of a particular group. As far as individual cases are concerned, we have received sufficient evidence on which we can come to a kind of judgment. The difficulty that presents itself to us is this. Supposing you are taking a comprehensive view of the Bombay textile industry, if you can visualise such a thing as a typical representative Bombay mill are you in a position to say that the commission and so on which have been charged by managing agents are such that they may be said to represent an unreasonably high standard? I do not want you to take individual groups.

Mr. Kapadia.—It is not possible to arrive at such a thing.

President.—If you can make any suggestion with regard to that then I think it would be very helpful. After all you cannot get away from the fact that there are managing agents in Bombay who reach as high a standard of responsibility as any managing agent in the country and after all when you are going to judge the position of the industry as a whole, it seems to me that it is but fair to take into account what has been done by agents of that class. I am not suggesting that that by itself would not give rise to a case for substantial reform but in fairness to the industry as a whole I suggest that a judicial body would like to take a comprehensive view of the position.

Mr. Kapadia.—Yesterday you referred to a company where competitive business was not permitted. I have a similar case on this side, namely that of Tatas. The agreement with the Tata Iron and Steel Company lays down as follows:—

"3. The said firm will during the said term be and act as the Agents of the said company, for the remuneration hereinbefore mentioned and upon and subject to the terms and conditions herein contained, and will use their best endeavours to promote the interests and business of the said company and will not divulge or make known any of the secrets or affairs thereof. And the said firm will not during the said term assist either directly or indirectly in the promotion of any company in British India, having for its object the manufacture or sale of pig iron and steel, or in

ny way calculated to compete with the said company, and will not directly or indirectly act as the Agents of any such other Company."

Mr. Davar.—With regard to the period for arriving at the managing agency commission we would suggest the years 1921 to 1930; that would bring in the fat years as well as the lean years.

President.—That is a point on which I would welcome your considered suggestion later on because it is a point which you have got to think out.

(At this stage the public examination of the witnesses was over and the President intimated that it was not necessary to examine them in Camera on the confidential note as the statements contained in the note were substantially authenticated by means of papers sent along with the note.)

INDIAN CHAMBER OF COMMERCE, CALCUTTA.

Evidence of Mr. D. P. KHAITAN, Mr. M. P. GANDHI and Mr. R. P. CHAKRAVARTI, representing the Indian Chamber of Commerce, recorded at Calcutta on Monday, the 12th September, 1932.

Mr. Khaitan.—Before you begin to put me questions, I should like to draw the attention of the Board to one thing which has not been mentioned in our statement and which has come to our notice only recently. Imported dhoties are brought into the Calcutta market and sold without the slightest indication as to the place of manufacture and sold in the Calcutta market as swadeshi goods. You have only to look at the samples to find out how it is managed (samples shown).

President.—Where does this cloth hail from?

Mr. Khaitan.—It hails from Manchester.

President.—Under the present law you cannot stop it.

Mr. Khaitan.—No.

President.—As a matter of fact I propose to raise this question later on.

Mr. Khaitan, you and your colleagues represent the Indian Chamber of Commerce?

Mr. Khaitan.—Yes.

President.—You have sent us a statement showing the names of mills for whom you are authorised to speak?

Mr. Khaitan.—Yes.

President.—I think that it occurs on page 15 of your printed memorandum?

Mr. Khaitan.—That is so. May I just state one thing! Those are the mills that are supporting our representation but so far as the Indian Chamber of Commerce is concerned, it represents not only mills but consumers and others.

President.—What I want to know now is whether the views which you have expressed with regard to the claim of protection and the nature and degree of protection required for the industry are upheld by these seven mills?

Mr. Khaitan.—Yes.

President.—These seven mills represent what proportion of the total output of piece-goods in Bengal approximately—I don't want any exact figures.

Mr. Khaitan.—The only other mills in Bengal that produce cloth are Bharat Abhyudaya and Radhakrishna Cotton Mills. So far as Dhakeswari mills are concerned, they have been spinning mills so long. They are now installing looms.

President.—They have been practically spinning mills?

Mr. Khaitan.—Yes.

President.—So that there are altogether 9 mills in Bengal?

Mr. Khaitan.—There is one more, and that is Rampuria Cotton mills.

President.—Where about is that?

Mr. Khaitan.—In Serampore. They have got only weaving.

President.—I take it that out of about 10 mills your representation represents the views of 7?

Mr. Khaitan.—Yes.

President.—Can you give me an indication of the number of mills which have been only erected since 1929 in Bengal?

Mr. Chakravarti.—The Chittaranjan Cotton Mills have just been started.

President.—They have been started since 1929?

Mr. Chakravarti.—Yes, they have just started working.

President.—How many have been erected or how many have started working since 1929?

Mr. Khaitan.—There is one in course of erection—Bangeswari Cotton Mills.

Mr. Gandhi.—There is also the Bangodaya Cotton Mill.

President.—That is altogether two?

Mr. Khaitan.—Yes. We see advertisements of many mills and I do not know how far they will become successful.

Mr. Rahimtoola.—They have issued their prospectuses?

Mr. Gandhi.—Yes, several of them.

Mr. Khaitan.—We cannot say that they won't become successful.

President.—Of the existing mills, to what extent do you think that the mills which were in existence in 1929 or 1930 have extended their plant and equipment since 1929-30?

Mr. Khaitan.—Dhakeswari Cotton Mills have been recently increasing their plant. They got their looms increased to 500 and now I think they are going to have 250 more.

President.—That is about 750?

Mr. Khaitan.—Yes. It is now a 500 loom mill.

Mr. Chakravarti.—We have also increased from 1929.

Mr. Khaitan.—Mohini Mills have increased from 299 to 447.

President.—That is about 150 again.

Mr. Chakravarti.—Yes. We are working day and night now.

President.—So that extensions have taken place not merely in the matter of equipment but also in the matter of working hours?

Mr. Khaitan.—Yes.

President.—Supposing I said on the whole in Bengal the total number of new looms that had come into existence since 1929-30 was about 1,500, that would be the outside limit?

Mr. Khaitan.—Are you taking the night shift into account?

President.—I am simply thinking of new looms?

Mr. Khaitan.—That would be about 1,000.

President.—The figures that you have given me come to 1,500, so that 1,500 would be the outside limit?

Mr. Khaitan.—Yes.

President.—How many mills have been on double shift production since 1929-30?

Mr. Khaitan.—(1) Mohini Mills are working double shift. (2) Kesoram Cotton Mills are working double shift. In their case out of 1,070 looms, only 850 looms are working double shift. (3) Bengal Luxmi is working double shift; that is about 760 looms. (4) Dhakeswari is now working double shift.

President.—That is about 4 mills are working double shift?

Mr. Khaitan.—Yes.

President.—Either completely or partially?

Mr. Khaitan.—Yes.

Mr. Chakravarti.—We are working completely.

President.—Mr. Khaitan, you are working double shift to the extent of about half of your looms?

Mr. Khaitan.—Just less than half.

President.—The others are working double shift to the full extent.

Mr. Khaitan.—Their full equipment is working double shift.

President.—Mr. Chakravarti, yours is 300?

Mr. Chakravarti.—Now it is 447.

President.—I had better explain our procedure with regard to your examination. I understand from your statement that you would like the cost statements to be examined in camera?

Mr. Khaitan.—Yes.

President.—If we did not mention the name of the mill of which the cost statements have been sent in, have you any objection to the figures being discussed publicly?

Mr. Khaitan.—I ask you to exercise your own discretion in the matter with this remark from me, that we would not like our figures to be published except to the extent that you might find it necessary for the purpose of arguments in your report. To that extent if I ask you not to publish, it might hinder your work. I don't want to hinder your work or to put obstacles to your work. Therefore I would rather leave it to your discretion.

President.—In that case, the best thing to do is that we would have the present discussion of the cost statements conducted in camera and then later on we will try to take this important consideration that you have mentioned into account and if there is any figure which it may be necessary for us to use in order to enable us to come to any conclusion, in that case we are at liberty to do so?

Mr. Khaitan.—Yes, to that extent.

President.—What I suggested to Bombay and Ahmedabad is that for the purpose of arguments all that may be necessary is to use figures in terms of percentages; that is to say, supposing for example we want to discuss the progress which has been made by Calcutta mills during the past five or six years; that is to say the cost under labour has been reduced, the cost under some other heading has also been reduced. . . . . .

Mr. Khaitan.—We don't object to that.

President.—Would you mind the total cost figure being mentioned? If we don't mention the individual items, but simply the total cost figure, would you mind that?

Mr. Khaitan.—Unless it is necessary to build up an argument, I would rather not. I may tell you at once as soon as it is known that the figures that you have given are of one mill, there cannot be the slightest difficulty in identifying the mill.

President.—As a matter of fact we are rather anxious in this enquiry that undue publicity should not be given to the cost of Indian mills because it is rather unlike the other industries we have enquired into. There is not merely external competition, but there is also severe internal competition.

Mr. Khaitan.—I am thinking more of the external fears than of internal fears. For example I don't mind Mr. Chakravarti seeing our figures. I have given him my figures. I have given them to all the mills. They have seen my figures. I do not keep that kind of secrecy but if you publish the figures it might do us harm so far as external competition is concerned.

President.—I understand your point of view. What I propose to do is that we shall discuss the general questions raised in your representation and in your replies to the questionnaire during the morning session and if we are able to finish the general discussion before we adjourn for lunch, then the afternoon session will be held in camera and will be devoted to the discussion of cost statements.

Mr. Khaitan.—Yes.

President.—If you look at your representation, page 1, in the first paragraph you ask us to ignore the suggestion from the Government of India with regard to differential duties.

Mr. Khaitan.—Yes.

President.—We are not an independent body; we are only a subordinate body. I am afraid we must conduct our enquiry on the basis of such terms of reference as the Government of India choose to send us. Of course, we are not concerned at all with matters of high policy. We are not concerned in the least with policy of any kind. Therefore as far as this enquiry is concerned and the question of differential duties is concerned we have to consider the question entirely on its economic merits. Now I find that the main argument that you have adopted both in your representation and in your replies to the questionnaire against the adoption of differential duties is that there has been a very large increase relatively to say three or four years ago in the production of finer counts of cloth, and you think that it is not unlikely that within a few years India would be in a position to render itself self-sufficient in the matter of manufactured cotton piece-goods; and therefore the Indian industry would need protection in respect of all classes of cloth and against all countries of export. That is your main argument?

Mr. Khaitan.—Yes.

President.—There is one point in connection with this question, looking at it purely as an economic issue, to which I do not see any reference made either in your representation or in your replies. Assuming for argument's sake that we accept the position that India should, and can, be rendered self-sufficient and therefore protection should be granted against all countries: supposing the difference between the fair selling price which may be estimated for the Indian industry in respect of any principal kinds of cloth and the price at which comparable classes of cloth are imported into India, say, from the United Kingdom is considerably higher than the difference between the fair selling price and the price at which similar articles are imported from some other country; then if we fix the measure of protection on the margin of the difference between the fair selling price and the import price without any damage to protection, without any damage to the interests of the Indian industry, would it not be possible to lower the rate of protection against countries from which goods are imported at a higher price? That is the economic issue to which you have not given any attention.

Mr. Khaitan.—We have given attention to that, if I may point out, on page 13 of our representation. If I may summarise our opinion in regard to this matter, our point of view is this. As you have said, we are convinced, and our latest experience convinces us still further, that India is to-day in a position to supply all the requirements of piece-goods in the country and if you give adequate protection, you will find I think within three months India producing more than what has been the amount of consumption of piece-goods in the country and there will be strong internal competition. If you give adequate protection in order to bring about that result, it makes no difference to Lancashire when a smaller duty is put on Lancashire than on Japan. We have given the instance of 200 and 150 per cent. If you impose a duty of 200 per cent. on Japan and 150 per cent. against Lancashire, you are giving a preference to Lancashire of as much as 50 per cent. and still Lancashire won't benefit by that large measure of Imperial preference.

President.—I understand your point of view. . . . . .

Mr. Khaitan.—If you will excuse me, I will just add one word. If in order to give Imperial preference you have at the back of your mind—by you I don't mean you personally or anybody but the authorities—an idea of giving protection only to an extent which would still render pos-

sible the importation of Lancashire goods, then it is not adequate protection. If you give adequate protection, then Imperial preference has no meaning.

President.—That argument depends for its validity on one assumption—and that is the assumption that you made in the beginning of your statement—that it is possible for India within a very short period to make itself completely self-sufficient in this matter. That is to say, there is hardly any class of piece-goods now imported into India which cannot be made in India given adequate protection within a period of three years. Therefore, if India can make all classes of imported goods without any distinction within such a short period as that, then adequate protection must mean protection which bars all kinds of imports. That is your argument?

Mr. Khaitan.—Yes. May I just say one thing which may be a very important factor in your considerations? When I say that India is in a position to supply the country to the fullest extent of its requirements, I don't say that India may be capable to-day of manufacturing every separate quality or kind of goods; what I mean is that Indian mills and Indian handlooms can supply the full requirements of the country: it is possible that the particular kind of tie which you are now putting on, may not be produced in the country, but would it be absolutely necessary for you to put on that particular tie of the quality that you are putting on? It may not be possible that India is in a position to-day to manufacture exactly the kind of cloth that you are putting on, but is it necessary, if you look to the national interest, to put on that particular kind of cloth?

President.—That is to say, if there are particular classes of cloth which for any reason it is impossible to make in the country in the near future, there are other classes of cloth which can serve as an effective substitute?

Mr. Khaitan.—As a convertible substitute.

President.—The Bengal Chamber of Commerce have drawn our attention to this point that there are several classes of cloth, particularly cloth woven from yarn of finer counts, which cannot be made in India as efficiently and in as satisfactory a condition as they are made in Lancashire partly for reasons of climate and partly for reasons of particular standard of skilled labour obtainable in India and that it is the experience of consumers in this country that piece-goods of finer counts of those particular classes, when they are made in India, are not up to the standard of quality which consumers have been in the habit of expecting.

Mr. Khaitan.—I will advance two answers in reply to that question, one is that so far as the standard of quality is concerned it has been our experience, during the last three or four years particularly, that the efficiency of the Indian mills as regards quality has improved considerably and qualities which we could not think of seeing produced in India three or four years ago have not only been manufactured but have been manufactured in such a good way that foreign mills are not able to compete with the quality produced in India, especially in regard to saris.

President.—That is coloured goods?

Mr. Khaitan.—The borders are coloured and the body is plain white but it is made from grey.

President.—What counts generally are these?

Mr. Khaitan.—Sometimes 100s × 120s, sometimes 80s × 100s and 60s × 70s. The quality that is produced now has really given us so much encouragement and strength of conviction that we think we can produce the same quality as the foreign mills. As I have already said, in certain kinds we have beaten foreign cloth. There is another question I would ask you to consider and that is this. Supposing there are certain persons who are very keen on having some particular kind and some particular quality,

there may be some persons in India who may be particularly keen on using Japanese goods only, there may be some Italians in India who would put on only Italian cloth, some Britishers who would put on only British cloth and might require the particular kind or quality that Lancashire produces; is the country to suffer for them? If they are very keen on that particular kind or design let them get that kind of cloth over the tariff wall.

President.—Let me put the question in a concrete way. You are here representing certain important manufacturers, I suppose, in Bengal. What has been your experience during the past two or three years that you have been manufacturing cloth of finer counts? Have you had any considerable number of complaints from dealers and consumers regarding the quality of the finer classes of cloth that you have been manufacturing in Bengal?

Mr. Khaitan.—No. On the other hand the finer cloths that we have started manufacturing and which the Mohini mills have been manufacturing for a longer period than we have done and Bangalaxmi have been going in for recently, are very popular.

President.—Has not any big wholesale dealer ever written to say that your 60s or 80s are inferior?

Mr. Khaitan.—No. Rather our cloth is very much liked.

President.—You have no complaint?

Mr. Khaitan.—No.

President.—That is the general experience of manufacturers in Bengal?

Mr. Khaitan.—Our products sell like hot cakes.

Mr. Rahimtoola.—Is it not rather due to the swadeshi movement than to the quality?

Mr. Khaitan.—It is due to the swadeshi movement. In fact the amount of protection that we have got at present, specially in regard to finer goods, has not been sufficient and had it not been for the boycott movement and for the swadeshi feeling in the country Indian mills would not have been able to make the progress that they have done.

Mr. Rahimtoola.—You have had no complaint with regard to the quality of the finer cloth?

Mr. Khaitan.—No definite complaint.

President.—On page 2 of your representation where you refer to the assistance that you have derived from the swadeshi movement there is just one aspect of that on which I should like to have a little more light. The industry can be helped in one of two ways or in both. First, it may help you to increase your sales; it may help you to realise a better price. What precisely has been your experience of the direction of the swadeshi movement: has it helped you only to increase your sales or has it helped you also to realise better prices, in the sense of higher prices than that you were realising in 1929 but cheaper prices comparable with the import prices?

Mr. Khaitan.—It has certainly helped us to increase our sales as regards all qualities whether coarse, medium or fine, irrespective of the kind of cloth that has been made. As regards prices, the position has been that in regard to coarse and medium we have got only competitive prices and on account of internal competition, as we have tried to explain in our representation, compared to the prices of cotton the price of cloth has been lower. But as regards very fine goods the price that the Indian consumer has paid for swadeshi cloth has been comparatively more than the price at which imported goods have been offered for sale.

President.—May I take it that the position is this: as far as cloth of coarse and medium counts is concerned, the prices that you have realised during the past two or three years have been prices comparable with those

of imported goods: as far as finer counts are concerned your prices have been slightly better as compared with the import price?

Mr. Khaitan.—In some cases considerably and in some cases slightly higher.

President.—But they have been generally higher?

Mr. Khaitan.—Yes.

President.—I should like to know what is it that happens when the maximum of the trade is responsible to a movement of this kind. Take for example coarse or medium counts where all that you have apparently succeeded in doing is to make larger sales but you have not got better prices: there what happens is that the dealer who has been dealing in imported goods transfers his business from imported to Indian goods, but he does so on condition that he is not asked to pay more to the Indian manufacturers than he has been in the habit of paying to the importer. Is that right?

Mr. Khaitan.—There is no condition put forward by anybody. What happens is this: I don't know whether you have been Cross Street or Sutapati in Calcutta—three or four years ago all the shops in Cross Street—about 800 shops—dealt in imported goods. During the last three or four years they have almost entirely changed to swadeshi piece-goods. That is because both on account of the tariff wall that has existed, specially in respect of plain grey, the foreign mills have not been able to compete with the Indian mills, and then added to that as a result of the strong wave of swadeshism that spread in the country, orders were not received in Calcutta from mofussil dealers and shopkeepers for anything but swadeshi cloth. In fact in several places Congress got foreign cloth sealed and it couldn't be sold at all. The result was that orders were received in Calcutta only for swadeshi cloth and naturally the merchants in Calcutta changed over to Indian mill made cloth. They want trade; they have no particular fancy for foreign cloth.

President.—But since there has been a sufficient supply of Indian cloth, sufficient to meet the demand of the whole country, therefore internal competition among the Indian mills have kept prices from going up: when the same movement occurs with regard to finer counts, there the Indian production is not sufficient and therefore Indian manufacturers are in a position to put up their prices in comparison with import prices?

Mr. Khaitan.—It is not a question of putting up prices. I would respectfully guard you against an impression of that character: it is a question of being able to sell at a profit. It is only during the last three or four years that Indian mills have gone in for finer and finer goods and that was in response to the swadeshi feeling in the country because the manufacturers thought that if they manufactured finer goods they would be able to dispose of them at a profit in the market. When the manufacture of certain quality is commenced, naturally the cost of production is higher than what it would be after a certain experience has been gained and after a certain amount of efficiency has been reached, and if consumers were not willing to pay a higher price comparatively to the imported goods it might not have been possible for the Indian mills to go over to the manufacture of finer and finer goods, so I am making a difference between putting up prices for profiteering purposes. . . . . .

President.—I did not suggest any profiteering: I suggested putting up prices in the sense of asking for a price—whether it covers your overheads or not—asking for a price which is higher by comparison with the import price.

Mr. Khaitan.—That is on account of the swadeshi feeling only.

President.—Do you ever get this question put to you by a wholesale dealer? You are a manufacturer: the wholesale dealer comes to you and says "I want to buy Indian made goods: I don't want to deal in foreign goods. You have got cloth of the kind I want. Now, as a matter of

fact if I buy foreign goods of this kind I can get it for Rs. 5, but I don't want to buy that. Will you give it to me for Rs. 5?" Is that a sort of psychological attitude which a dealer has?

Mr. Khaitan.—That would be the psychology if the swadeshi feeling becomes less, but during the last three years what has happened is this, that if the shopkeeper could not give fine swadeshi cloth the purchaser would have bought coarser cloth, but the purchaser has been willing to pay a higher price for the finer cloth because he could get it swadeshi, and therefore the shopkeeper when buying his requirement wholesale, just tries to get very fine swadeshi cloth stocked, the best quality at the cheapest price. He has not been in a position to compare how the price of swadeshi cloth stands in regard to imported cloth.

President.—Supposing the swadeshi movement continues for another five years and during the next five years the industry has been also given adequate protection with the result that Indian mills have taken to the manufacture of finer classes of cloth on a much larger scale than they do now, then inspite of the swadeshi movement and inspite of the protective duty your contention is that prices would automatically come down?

Mr. Khaitan.—Yes, on account of internal competition.

President.—How many years would you fix for this kind of tariff?

Mr. Khaitan.—It depends on the amount of protection you give. If you give us 100 per cent.—

President.—Do you consider that high?

Mr. Khaitan.—No, having regard to the Japanese currency at present. If you give 100 per cent. against Lancashire and Belgium and, say, 150 against Japan, then surely I think that kind of internal competition will be appreciably feasible within the next two years.

President.—I do not know if you have made any reference either in your replies to the questionnaire or in your representation about the period of protection.

Mr. Khaitan.—We would like to discuss it. We think that the smallest period for which you have to give us adequate protection is ten years. Unless you give it for ten years there will not be that feeling of safety in the minds of manufacturers to increase their production of a certain quality. You must give them that incentive. The larger the percentage of protection and the larger the period that you now fix the greater will be the tendency to shorten the period within which that intensive internal competition will take place.

President.—Your minimum is ten years?

Mr. Khaitan.—Yes.

Mr. Chakravarti.—We will have time to buy new machinery for manufacture of finer counts.

President.—Ten years is the suggestion which has been made by the Bombay and the Ahmedabad Millowners' Association.

Mr. Khaitan.—That is the very minimum.

President.—May I take it that the Indian Chamber of Commerce are in agreement with Bombay and Ahmedabad with regard to the period of ten years?

Mr. Khaitan.—Yes.

President.—If it were not a minimum period, but a normal period, what kind of period would you suggest?

Mr. Khaitan.—As I have told you the longer the period that you give and the higher the protection that you fix, the shorter will be the period with which you will get that kind of intensive internal competition.

President.—20 years?

Mr. Gandhi.—Give us 20 years and 200 per cent. You will find that consumers are quite safe.

Mr. Khaitan.—It is not simply for the purpose of demanding a thing I am saying it.

President.—The higher the rate of protection and the longer the period of protection, the less ultimately will be the burden on the country.

Mr. Khaitan.—Yes.

President.—That is theoretically a correct position.

Mr. Khaitan.—It is practically correct also. All the gentlemen who took part in our Committee deliberations say that it is not simply theoretical. You can visualise it before your eyes as plainly as the sun rising in the east.

President.—Let us go on to paragraph 5. You make the statement here that the consumption of Indian cotton would have been much more had it not been for the reduction of the difference in price. I have been looking at the figures. Supposing there had been no break in the price parity between American and Indian prices, the number of bales of Indian cotton which would have been used by the Indian industry in addition to what they used last year is somewhere about a lakh of bales. If the price parity had continued in 1931-32 the extent to which additional Indian cotton would have been used in the country, that extent would not have exceeded one lakh of bales, that is to say about 40 million lbs. As far as finer cloth is concerned, you cannot use Indian cotton.

Mr. Khaitan.—No.

President.—You can't get Indian cotton of longer staple above 1″. There was a good deal of American cotton of ⅞″ and 1″ imported last year, because largely there was this disturbance in the price parity. So if there had been no disturbance, the extent to which you would have increased your use of Indian cotton would be one lakh of bales.

Mr. Khaitan.—I believe you are arriving at that figure in this way: you have taken the total import of cotton and you have excluded cotton over 1″. You are saying one lakh of bales between ⅞″ and 1″. You have excluded cotton which was over 1″.

President.—You exclude the imported long staple cotton comparable with Indian long staple cotton. With the exception of that, you would have to use the imported cotton any how?

Mr. Khaitan.—Yes.

President.—So that it would have made a difference of 5 per cent. if you took the Indian total production.

Mr. Khaitan.—There is an upward trend even now—

	Lakhs of bales.
1928-29	19
1929-30	23
1930-31	22
1931-32	24

President.—The correct way of looking at it is if you took the whole of Indian production in 1931-32, India produced 670 million lbs. of cloth.

Mr. Khaitan.—Yes.

President.—The amount of imported cotton comparable with Indian cotton which came into India last year was one lakh of bales. That is about 40 million lbs. 40 out of 670 is about 5 to 6 per cent.

Mr. Khaitan.—Yes.

President.—Therefore my own idea is the extent to which the continuance of normal prices last year would have increased the use of Indian cotton is not so great as your statement seems to suggest.

Mr. Khaitan.—Quite.

President.—I come to the important point that you have raised in paragraph 7. I find it difficult to follow the figures. I will tell you what

my difficulty is. You have warned us against making comparisons. In terms of percentage the comparison might be misleading. That is your point?

Mr. Khaitan.—Yes.

President.—That is so, if you are considering the costs including raw cotton. But supposing from your cost of cloth you deduct the cost of raw cotton and simply consider the extent to which the price above raw cotton has declined, then there is no room for misleading conclusions.

Mr. Khaitan.—The best way that we have found of comparing is this: the other expenses are almost constant, wages, interest and so on.

President.—It would not be quite constant.

Mr. Khaitan.—I know it is not quite constant.

President.—Sometimes it might make a difference of 5 to 10 per cent. Your insurance charges will vary and your interest charges will vary according to the amount you pay for raw cotton. When you have a sharp rise in the price of raw cotton, your interest charges vary very perceptibly.

Mr. Khaitan.—It all depends on the amount of stocks carried. When the cotton is low-priced, there is a tendency to carry larger stocks. When the cotton is high-priced, there is a tendency to carry a smaller stock, and therefore no practical variation. We have found that the amount of interest that we have paid is fairly steady. Machinery has got to be fully insured and insurance charges have proceeded almost constant. So far as wages are concerned, wages paid per lb. of cloth have not been reduced.

Prsident.—That I understand.

Mr. Khaitan.—They have not been reduced at all. Overhead charges, salaries paid to weaving master, spinning master have not been reduced. Rent and taxes have not been reduced.

President.—Your selling expenses would vary if they are determined by percentages?

Mr. Khaitan.—Yes, in most cases.

President.—When there is a variation in the price of raw cotton, there is a variation in the price of piece-goods.

Mr. Khaitan.—The selling expenses are so little.

President.—Coming back to your argument what are you trying to establish?

Mr. Khaitan.—What I am trying to establish is this: having regard to that factor the other expenses apart from raw cotton remaining constant, if you compare the course of prices of cloth with the course of prices of cotton, what you have got to see is by how many annas or pies per lb. of cotton has fallen. If you find that cloth has fallen more than cotton, you will have to come to the conclusion that the cloth has in fact fallen more than cotton.

President.—I will tell you how I began to be worried with doubts when I examined your figures. I will tell you how the process started in my mind. I looked at the Calcutta index number from 1927 to 1931. The average figure for raw cotton in 1927 was 167. In 1931 it was 83—a fall of approximately 50 per cent. If you took cotton manufactures, in 1927 it was 159 and in 1931, 123, a fall of 22½ per cent. If you take generally that the cost of raw cotton is somewhere about 40 per cent. of the price of finished goods, then the relative proportion given by the wholesale index number is absolutely correct. If the raw cotton falls to the extent of 50 per cent., it may be expected that the cost of raw cotton is 40 per cent. of final price of piece-goods, and it may be expected that the fall in the cost of piece-goods is somewhere about 20 per cent.

Mr. Khaitan.—So far as Indian cloth is concerned, we have given you the actual prices. The index figure of 1931 includes both local made and foreign cloth.

President.—It does.

Mr. Khaitan.—You remember in March 1930 and in September 1930 duties were increased.

President.—The benefit of which you got too in your prices.

Mr. Khaitan.—So far as coarse and medium counts are concerned, you will have to see from the prices that we have given you from our books whether we have actually realised a benefit on all kinds of cloth. As regards the index figure that is necessarily included in the price which the Director General of Commercial Intelligence takes into calculation in arriving at the index figure. So the duty has come into that calculation and it is an average.

President.—If you take your last class, 40s x 60s, as far as that is concerned, I take it that you would get a price on your own argument for 40s x 60s somewhat comparable with the import price, because that is distinctly on the finer side.

Mr. Khaitan.—When I say higher prices are actually paid, I am speaking of cloth above 60s.

President.—I say you will get comparable prices. I am leaving out the coarse counts.

Mr. Gandhi.—Rs. 1-15-0 is not the import price.

President.—What is the corresponding import price?

Mr. Gandhi.—Rs. 1-12-0 for 40s x 60s.

President.—Can you tell me what the import price of that cloth was in 1929?

Mr. Khaitan.—Rs. 1-9-0. One difficulty comes in, in comparing our Indian mill made cloth with foreign cloth and that is they are not manufacturing from exactly the same counts.

President.—That is a question which has bothered us right through from the enquiry. The precise point is this: it has been suggested over and over again that as far as medium and coarser counts are concerned, internal competition has brought down Indian prices to an extent larger than the fall in the prices of higher counts of cloth. Your table does not bear that out, because all classes of cloth are more or less in the same proportion.

Mr. Khaitan.—These are the actual figures that we have given you.

President.—Similar figures given to us by Bombay seem to bear out a different conclusion. When we look at the price, the variation in the price of finer classes of dhutis, the extent to which it has fallen is smaller than the extent to which the price of coarser cloth has fallen. That is what one would have expected.

Mr. Khaitan.—Have they given you for 40s x 60s or higher than 60s?

President.—It is nearer 40s than 60s. I don't think 60s came into that. It was 40s warp and 54s weft.

Mr. Khaitan.—These figures are quite correct.

President.—Are these figures representative?

Mr. Khaitan.—These figures for 40s x 60s are those of Mohini Mills. The other figures for 9½s x 12s are taken from our Delhi Mill. Figures for 20s x 24s and 20s x 32s are taken from Kesoram Cotton Mills Limited.

President.—I will tell you the practical reason why I am so anxious to get this point elicited. A suggestion has been made to us and I believe there is a great deal in that suggestion that if protection for the Indian Textile industry is going to be effective at all, it has got to be given in view of the rapid fall in the prices of imported goods coming from certain countries. Protection has got to be given as far as possible by means of a specific duty. Whenever the price falls, the actual amount of protection also goes down. The only way in which you can determine the specific duties applicable to particular classes of cloth is to take the Indian cost

and the import price of those ranges of cloth where competition is keenest. Take 40s or 50s or 60s where competition is focussed. When you have calculated the measure of protection on the basis of the difference between the Indian fair selling price and the import price, when you have got your measure of protection for that class of cloth, for administrative purposes you have got to apply that duty to the whole range of classes falling within that particular category. If the duty that we have arrived at is a duty applicable to 40s×60s and if we say it ought to apply, if it is plain grey to 10s×20s, then obviously it is going to mean that proportionately you are going to place a very much higher burden on the man who wears a coarser kind of cloth and he is precisely the man who is least able to bear the burden. If, on the other hand, on the figures you can maintain that internal competition will help to bring down the prices of coarser counts of cloth to a level far below the level indicated by the duty, then I think there is a case for establishing a specific duty on those lines, but your table doesn't bear that out. That is what worries me.

Mr. Khaitan.—These are the prices of 40s×60s. They are of one mill—Mohini Mills. We have also got to see the conditions prevailing in other mills.

President.—Would you care to look into this question a little more carefully and let us have a statement showing the relative form during the past three or four years of Indian prices, prices of Indian made goods falling within different classes, say 20s, 30s, 40s and 50s?

Mr. Khaitan.—That is just what we have given.

President.—You have taken individual cases which apparently are not representative. I should like you to see that the figures are really representative.

Mr. Khaitan.—I will tell you that in the case of 40s×60s it has been only of recent growth in Bengal. So far as 20s×32s and 9½s×12s are concerned, you may take them as quite representative, because they come under a standard manufacture by quite a large number of mills.

President.—I will tell you that your 20s×32s seems to me to be all right, but the tendency suggested by figures we have got from elsewhere is that it is really your 40s×60s.

Mr. Khaitan.—During these 4 years it is only Mohini Mills that have been manufacturing this particular kind of cloth (40s×60s) in Bengal. We have started manufacturing it only last year. That is why we have not given Kesoram Cotton Mill figures.

President.—These figures are not by any means representative?

Mr. Khaitan.—They are not representative. You might be guided by the results of other mills.

President.—I should like the Chamber to go into this question a little more carefully.

Mr. Khaitan.—Our difficulty is that it is only Mohini Mill figures that we have.

President.—The total amount of production in Bengal is so small that the conclusion that we get out of figures supplied by Bombay and Ahmedabad must be taken as typical of the country.

Mr. Khaitan.—Yes.

President.—There is also another difficulty with regard to this statement. Suppose I say that the falls which are indicated in this statement are due to general depression and not internal competition, is there anything in the figures to refute that conclusion? Supposing I say in reply to this table and your argument that your fall in prices shown in this table is in every case due to a general decline in the demand for commodities and not to any internal competition of the textile industry.

Mr. Khaitan.—So far as internal competition is concerned, you will find that from the figures of production.

President.—As far as internal competition is concerned, there are figures to show that India is at present in a position to supply the whole requirements of the country.

Mr. Khaitan.—Not only that.

President.—More than that?

Mr. Khaitan.—It leads you to another conclusion also.

President.—As far as the other conclusion relating to prices is concerned, it is much better for us to base ourselves upon actual figures.

Mr. Khaitan.—Yes.

President.—In the 1926 report. . . . . .

Mr. Khaitan.—Am I understanding you correctly because I fear I may not be understanding you correctly? We have given you actual prices ruling throughout the year. We have actually calculated them. We have taken the prices ruling in the 1st week of every month. We have taken those prices and calculated the average and given you the prices of cloth for the year. Similarly in regard to cotton we have done the same. What we have given you is the actual average for the year with the prices ruling for typical cloths manufactured out of certain counts. Now you are asking me whether you could not conclude from this that the fall in the price of cloth has been due to general depression and, as a consequence of it, less buying power of the people rather than to internal competition. We want to make a distinction between the two at present. What I am submitting to you is that so far as your conclusion that the prices are reduced due to general depression is concerned, we have to proceed along the channel of imagination but so far as increased production, which means internal competition, is concerned, we have got those bed rock facts and statistics which show, that there has been so much more production in the country. You will find from the yarn consumed of say above 40s and of yarn consumed up to 40s, if you make that as the dividing line—you can take any count as the dividing line—that there is so much more internal competition, a fact which cannot be denied. Then, I would say that so far as the general depression is concerned the price of cloth should have fallen by so much per lb. as the price of cotton but we submit to you that the price of cloth has fallen more per lb. than the price of cotton.

President.—For the present I don't regard your figures as representative of the country.

Mr. Khaitan.—Why not? As regards $9\frac{1}{2}$s $\times$ 12s. . . . . .

President.—You take $9\frac{1}{2}$s $\times$ 12s. If you leave out the cost of cotton *plus* say about 10 to 15 per cent. wastage from the price figure and take the fall above the price of raw cotton, you will find the fall as regards $9\frac{1}{2} \times 12$, although greater than 20×32, is not greater than the fall indicated by the general price.

Mr. Khaitan.—How are you measuring?

President.—I am simply taking the index number.

Mr. Khaitan.—Which figure?

President.—The general Calcutta index number. If you take 1927 and 1931 figures, it is 32 per cent.

Mr. Khaitan.—I am requesting you that you should not go by the percentages. I am myself convinced that will lead you to wrong conclusions.

President.—Yes, if I did not eliminate cotton part of the price. But if I eliminated the raw cotton price and took the margin above raw cotton, I should be safe on percentages.

Mr. Khaitan.—Instead of being on safe ground, I would submit to you very emphatically that you are on wrong grounds.

President.—Your suggestion is open to serious and great deal of misconstruction if we are to take up the absolute amount.

Mr. Khaitan.—Yes.

President.—It is a question of choice.

Mr. Khaitan.—I will give you an example. We want to produce 100 lbs. of cloth. For that we use roughly speaking an equivalent quantity of cotton because the wastage goes out of that. For that 100 lbs. of cotton we have to pay a certain price. That varies according to the price of cotton. As regards the other costs wages, interest, overhead expenses, those things have always remained constant. If they remain as constant, we can afford, except for reasons of internal competition, to reduce our price of cloth per lb. only to the extent of the fall in the price of cotton.

President.—You have to pay for your cotton?

Mr. Khaitan.—Yes.

President.—You cannot economise on that. The thing has got to be paid for. If the price of cotton is 5 annas a lb. you have to pay per lb. of cloth 5 annas *plus* something for the amount of cotton wasted.

Mr. Khaitan.—Yes.

President.—Therefore if as a result of internal competition or any other cause you get a smaller price for your finished goods, you have to economise on items above raw cotton?

Mr. Khaitan.—By increased efficiency we have done that but not by reducing wages.

President.—I am not speaking of wages. By increased efficiency or any other means you have to bring down the cost of production. Therefore if you eliminate the raw cotton factor from the price and take the margin above the raw cotton, then on the basis of percentages you are correct?

Mr. Khaitan.—I think we are coming nearer each other. What I have been trying to impress upon you is that there has been a larger fall in the price of cloth than in the price of cotton. We have succeeded in bringing that about by increased efficiency but not by lowering the wages per lb. or whatever the unit is.

President.—I am not suggesting that in the least.

Mr. Khaitan.—That being so, we say that internal competition has forced us to increase our efficiency as a result of which we have been able to reduce our cost of production. That is what we have been trying to impress upon you.

President.—I don't think that it is possible for us to carry the discussion any further. I think I understand your point of view. I still believe in mine.

Mr. Khaitan.—I hope you won't. I hope we have come very near each other. You are taking the reduced cost of production in the beginning. I am only taking it in the end to show what has been the result of internal competition.

President.—What I have been trying to do is to take the first and last year. I take the price in 1929, deduct from that the amount that I have to pay for the raw cotton and wasted raw cotton. The margin above that represents manufacturing charges, depreciation, return on capital and it is that margin that I can reduce. There is no other margin.

Mr. Khaitan.—I am coming to the same conclusion. But I show it to you that on account of internal competition our efficiency has increased as a result of which we have lowered our cost of production and as a result of which we have been able to give our consumers cheaper cloth than can be sustained simply by the fall in the price of cotton.

President.—You are not meeting my point. My point is this. I admit that there has been increased efficiency, and therefore there has been a reduction per unit of cloth. All that reduction applies to the items above raw cotton. On the cost of raw material you cannot economise.

Mr. Khaitan.—Quite so.

President.—The reduction in the price that you get as the result of internal competition is partly to be met by efficiency in production which enables you to economise costs; it has to be met partly also by your satisfying yourselves with a smaller return on your capital.

Mr. Khaitan.—That depends upon how much return we are getting on our capital.

President.—You are getting very little?

Mr. Khaitan.—Yes.

President.—If there were no internal competition, you would try to get a reasonable return on your capital?

Mr. Khaitan.—That is so. Human nature is human nature.

President.—The reason why you are content with that is due to the fact that there is a general depression which has led to a decline in the commodity prices—not necessarily to internal competition.

Mr. Khaitan.—What we find is that it is due more to internal competition. We are men who have to go into the market every day, trying to get as high a price as we can but not getting because of internal competition. We are going on reducing prices. We see that every day before our eyes.

President.—If you had fewer mills in the country and smaller production of coarser counts and if you had a period of extraordinary depression such as we have had since 1929, the percentage of fall I think would have been different.

Mr. Khaitan.—I beg to differ from you. The prices would certainly have been higher in spite of the general depression but for the internal competition.

President.—If you look at the history of Bombay. . . . . .

Mr. Khaitan.—The difference of 1 pice per pound is accounted by general depression.

President.—If you take the trouble of examining Bombay prices over a number of years and see the changes which have occurred and then say that the bulk of the fall is due to internal competition in those important classes of cloth, all that I can say is that you are drawing a bigger inference than the facts would justify. I don't think we need discuss that any further.

Mr. Khaitan.—I am convinced from my own experience that what I am stating is correct because so far as general depression is concerned, it is one pice per lb. Even half an anna per lb. would not make the slightest difference in sales.

President.—Would you like to think it over in the light of our discussion? If any idea occurs to you, we shall be glad if you send it. I personally would be glad if my tentative conclusion is wrong in that.

Mr. Khaitan.—I am certain that your conclusion is wrong.

President.—You have not proved it?

Mr. Khaitan.—How am I to prove it?

President.—Let us look at page 6. Are these figures fairly reasonable—on a conservative estimate?

Mr. Khaitan.—Which figures?

President.—The figures with regard to the yardage of cloth of higher counts than 30s. I will tell you the point about which I am doubtful. If you take the very last figure, the total production of cloth from counts above 31s is 941 million yards. The amount of yarn in the corresponding year is 105 million lbs. (see footnote).

Mr. Khaitan.—We have calculated at 103.

President.—That is practically 9 yds. to a lb.

Mr. Khaitan.—9 yds. to a lb. of yarn and not to a lb. of cloth.

President.—Is that a correct average if you take all counts above 30s? If you take all classes of cloth above 30s of the counts that you have been producing, would the average number of yards per lb. of yarn come to as much as 9?

Mr. Khaitan.—We have taken it on our production.

President.—I may be wrong. This is rather a technical point.

Mr. Khaitan.—We have taken it from our production.

President.—What I feel about it is this. You give a figure of 7 lbs. of yarn to 8 lbs. of cloth. How is that? How is it that 8 lbs. of cloth are got out of 7 lbs. of yarn? Is the difference due to size?

Mr. Khaitan.—Yes.

President.—Therefore the percentage of size here is somewhere about 14 to 15 per cent?

Mr. Khaitan.—Yes, on cloth.

President.—The retention is 15 per cent.?

Mr. Khaitan.—Yes.

President.—You have also to take into consideration the amount of yarn lost?

Mr. Khaitan.—You mean the wastage.

President.—Yes. That would be 5 per cent.?

Mr. Khaitan.—No.

Mr. Chakravarti.—$2\frac{1}{2}$ per cent.

Mr. Khaitan.—It may be used.

President.—It is not. I know the amount.

Mr. Khaitan.—We are more lucky.

President.—Take it at 3 per cent. Then the actual percentage of size must be 18 per cent. because that also is made up.

Mr. Khaitan.—Yes.

President.—So that the percentage of size would be nearer 20 than 15. The percentage of size retained in your cloth is very little. 7 lbs. of yarn gives you 8 lbs. of cloth? What amount of size will it retain?

Mr. Khaitan.—Let us take it on cloth at $12\frac{1}{2}$ per cent. We have taken yarn wastage at $2\frac{1}{2}$ per cent.

President.—That would be 15 per cent.

Mr. Khaitan.—The quantity of weft if we take it on, say, 40s×60s on same reed and pick and take that the weight of warp would be $\frac{6}{10}$ths and 15 per cent. on total yarn it will come to 25 per cent. on warp.

President.—These are all finer classes of cloth?

Mr. Khaitan.—Yes, above 30s.

President.—On these finer classes of cloth does it amount to so much as 25 per cent.?

Mr. Khaitan.—Yes. You can call it medium.

President.—What proportion of it is bleached?

Mr. Khaitan.—30s×40s are not sold as bleached; so far as we are concerned we sell both grey and bleached and I think in 40s×60s less than half is bleached.

Mr. Chakravarti.—In the Mohini Mills 15·5 per cent. is bleached.

President.—That is about $\frac{1}{7}$th. On the bleached there is no size?

Mr. Chakravarti.—Very little.

Mr. Khaitan.—We have got to put size firstly for manufacturing it in grey condition; then we bleach it and put the finishing materials.

President.—In the final bleached condition there is no additional weight retained by the cloth on account of sizing?

Mr. Khaitan.—Very little. These calculations we have given you are for grey.

President.—If in your case half and in another 1/4th and in another 1/7th . . . .

Mr. Khaitan.—I said less than half is bleached in 40s×60s, and in the case of Mohini Mills 15·5 is bleached in the last six months.

President.—On an average for classes of cloth consisting of counts above 40s you would consider this average of 1 lb. of yarn for 9 yards of cloth would be a correct figure to take? It is higher than any figure we have seen.

Mr. Khaitan.—We have given you our figures for 40s×60s. There our calculation may be different from the calculations at those places where 30s×40s is manufactured. In Bombay they manufacture more 30s×40s than 40s×60s and therefore their yardage will be less per pound.

President.—Now I come to page 9. You make a statement which you amplify later in a statement which you have sent in to us, that the effect of the duty on imported raw cotton is reflected in the price of all classes of Indian short staple cotton. Is the Indian short staple cotton affected by the import duty on cotton?

Mr. Khaitan.—That is our experience. I will give you an example from which you will understand it more clearly. We always take Broach cotton as the standard by which to judge whether the price of raw cotton is on a higher parity than American cotton. At present I believe it is about Rs. 25 to 30 higher per candy. If you see the difference between Broach cotton and Bengal cotton, formerly it used to be Rs. 150, when the price of Broach came down the difference between Broach and Bengal came down to Rs. 90 and at present it is only Rs. 50.

President.—That difference arises by Broach coming down or Broach going up: both sides must come into the picture.

Mr. Khaitan.—Bengal has not fallen so much as Broach has fallen, and therefore the price of Bengal cotton as compared to American cotton is on a still higher level than the price of Broach as compared with American cotton. The difference in parity between Broach cotton and American cotton is about Rs. 30 and Bengal cotton is still higher. The difference used to be Rs. 150, then 90 and it is now 50.

President.—Supposing there was no duty and it was simply a question of the effect of the disturbance in the price parity between American and Indian, would not the same result happen?

Mr. Khaitan.—My view is that if the import duty had not existed then there would have been a tendency of more cotton being imported into India and then there would have been less demand for Indian cotton. The result would have been that the price of Indian cotton would have been lower than what it is to-day.

President.—Your conclusion may be right but I don't think the facts necessarily lend themselves to that inference because apart from the duty a mere disturbance in price parity may bring about that result because if there is a fall in the price of American cotton those classes of Indian cotton which are comparable with American cotton will come down but those classes of Indian cotton which are defined as short staple cotton and which do not directly come into conflict with American cotton will not be affected in the same manner.

Mr. Khaitan.—Your argument would have much force if the price of Broach cotton had come down to the same extent as American but the hard fact remains that the price of Broach cotton to-day is Rs. 30 higher than the American parity.

President.—I am quite willing to admit that as far as Broach and similar classes of cotton are concerned the import duty has its effect; what I am trying to assess is the effect of it on cotton like Bengal cotton.

Mr. Khaitan.—If you admit that it affects the Broach cotton and if Broach cotton in spite of the duty is Rs. 30 higher than American cotton and if formerly the difference between Broach cotton and American cotton used to be Rs. 90, you take the difference between Broach cotton and Bengal cotton which was normally Rs. 120 on the same basis and then it came down to 90 and it is only Rs. 50 to-day, you will see that even Bengal cotton is affected by the import duty because if your argument is correct that it must have some relativity with Broach cotton and if Broach is affected by the import duty then naturally Bengal cotton is affected by the import duty. And it must be so because if Broach cotton were affected and remained on a higher level and Bengal remained lower on account of the import duty then there would be a larger consumption of Bengal cotton. The result of that would be to increase the price of Bengal cotton.

President.—Because the Indian mills are already producing the maximum quantity of coarser quality of cloth from Bengal cotton.

Mr. Khaitan.—If relatively cloth becomes cheaper the demand for that cotton might increase.

President.—You cannot use Bengal cotton for higher counts?

Mr. Khaitan.—No.

President.—The really practical point is this: the suggestion has been made to us by the Indian Central Cotton Committee that the duty on imported raw cotton might be confined to cotton having a staple of 1 inch and below: to that below 1 inch the duty should not apply. Would you accept that proposal?

Mr. Khaitan.—I have no objection to that. I would only feel sorry for the cultivators. If I come to you simply as a millowner I am very selfish, but I have my heart also. We know that the whole superstructure of Indian economics is based upon the prosperity of the cultivator and we can't forget that unless the condition of our cultivators improves our condition even as millowners won't improve.

President.—Sir Purshotamdas Thakurdas giving evidence on behalf of the Indian Central Committee suggested this limit of one inch staple: I suggested that the effect of that duty would be felt on practically every grade of cotton but the representatives of the Indian Central Cotton Committee were not prepared to accept that position, but I have received a certain amount of confirmation from the argument you have put forward.

Mr. Khaitan.—We feel very strongly for the cultivators and we have gone to the extent of mentioning it in our representation.

President.—Would you be prepared to support the retention of the duty on cotton of all grades?

Mr. Khaitan.—As an Indian I would, though as a millowner my tendency might be in a different direction.

President.—Coming now to page 14 of your representation, the calculation by which you have arrived at this conclusion, is that a confidential statement?

Mr. Khaitan.—I would not like that to be published but if you want to do so for the purposes of your argument, then we have no objection.

President.—It is for purposes of discussion.

Mr. Khaitan.—Yes, we can discuss it.

President.—Let us take statement 5. What you have done here is to take the percentage figures under each item?

Mr. Khaitan.—Yes.

President.—If you take A you reach a percentage figure of 5·12 per cent. That is 5·12 per cent. of the cost of cotton. Am I right?

Mr. Khaitan.—That is right.

President.—In this ·7 per cent. is the percentage of machinery cost?

Mr. Khaitan.—Yes. I think we have made ourselves clear there.

President.—If 5 per cent. is assumed as the rate of depreciation then 5 per cent. of the machinery has to be replaced by fresh purchases; that is the kind of argument here?

Mr. Khaitan.—Yes.

President.—If you look at the second page of that statement where you sum up the whole position, 5·12 is the percentage of the cost of cotton and 0·7 is the percentage of the cost of machinery?

Mr. Khaitan.—5·12 per cent. is on the total value of production, not on cotton. The total value of our production is Rs. 5 lakhs a month; the cost of production has gone up and these figures that we have given you are monthly figures.

President.—5·12 per cent. is calculated on Rs. 5 lakhs?

Mr. Khaitan.—Yes.

President.—If you take an approximate figure of 36,000 and take it on an annual basis it is about Rs. 4⅓ lakhs on Rs. 60 lakhs. With regard to the transport of Egyptian cotton, have you any disability here?

Mr. Khaitan.—No, we have got direct service.

President.—There is no question of fumigation?

Mr. Khaitan.—No.

President.—With regard to East African and American cotton, in the one case it is due to fumigation and the other case is due to lack of direct service. The extent of the disability is the same.

Mr. Khaitan.—Yes. I think in the case of East African cotton, all that is done is the cotton is unloaded from the steamer and brought down here. In the case of American cotton it has to be taken to the fumigation place and then taken back to the steamer. Our disadvantage is greater in the case of American cotton than in the case of East African cotton.

President.—But not very much?

Mr. Khaitan.—No.

President.—If you take it at Rs. 15 in each case it will be approximately correct.

Mr. Khaitan.—Yes.

President.—Rs. 15 per candy works out to 3½ pies a lb.

Mr. Khaitan.—Yes.

President.—That is your disability in regard to imported cotton as compared with Bombay.

Mr. Khaitan.—We have to add 20 per cent. for wastage. It would come to over 4 pies.

President.—Including the wastage?

Mr. Khaitan.—Yes, one pie per lb. is not a small thing.

President.—Per lb. of cotton your disability is 3½ pies.

Mr. Khaitan.—Yes. There is another thing to be mentioned. There is difference in the freight rates on the Eastern Bengal Railway for half pressed and full pressed.

President.—That appears to be purely a railway matter.

Mr. Khaitan.—Yes, what are we to do. When Sir George Rainy, the Commerce Member, came to Calcutta, we pointed out to him and he said that it is reprehensible and that is the word he used.

President.—Why don't you take it to the Railway Rates Advisory Committee? That is obviously for the Railway Rates Advisory Committee to enquire.

Mr. Khaitan.—When he went back to Simla he was overpowered by the Eastern Bengal Railway Authorities and when we wrote to the Eastern Bengal Railway they drove us from pillar to post.

President.—I will come to your replies to the questionnaire. As far as your views on Mr. Hardy's conclusion are concerned, I think your views

are generally in agreement so far as I can make out with those put forward by the Bombay and Ahmedabad Millowners' Association.

Mr. Khaitan.—Yes.

President.—Coming to question 9, that is a point on which Mr. Gandhi might help us. I would like to get a figure which we may take as a fairly reliable figure as regards the quantity of handspun yarn produced in the country. Is there any information that you can give us?

Mr. Gandhi.—If you want to know the quantity of handspun yarn, the only accepted and authoritative basis is 10 per cent. although it appears to be an underestimate for the last 3—4 years.

President.—And that 10 per cent. you calculated on the conventional figure of 750,000 bales.

Mr. Gandhi.—On the amount of yarn left to the handlooms by the mills, and the foreign imports.

President.—Supposing you took 350 millions as the amount now available for consumption by handlooms?

Mr. Gandhi.—Yes, that, in my opinion, would be more correct.

President.—If you took it on a 10 per cent. basis, it would be 35 millions and that 35 million lbs. roughly corresponds to 750,000 bales of cotton and that is the conventional figure.

Mr. Gandhi.—Though I feel sure this must have been more in the last 2 or 3 years, it is very difficult to arrive at any figure.

President.—Are you in a position to make any suggestion with regard to the amount of increase?

Mr. Gandhi.—I would put it at about 50 million lbs. I am going to send you a memorandum on the subject to-day.

President.—We have been examining the figures issued by the Ahmedabad All-India Spinners' Association.

Mr. Gandhi.—These figures are about organised institutions only. They are not complete. You can draw only one conclusion from them and that is they are the minimum figures.

President.—Assuming that this 10 per cent. is a fairly reliable figure and add 15 millions to that to cover all extra production and take a figure of 50 millions.

Mr. Gandhi.—I think 50 millions would be a fair figure.

President.—It would be a tenable figure?

Mr. Gandhi.—After 1928-29 when the Non-Co-operation movement started.

President.—I think at present a figure of 50 million lbs. would be somewhere about right?

Mr. Gandhi.—Yes, I believe so.

President.—With regard to the handloom industry, various suggestions have been made to us by people interested in the handlooms. There is first the question whether the specific duty on yarn should be retained either completely or partially. What is your view?

Mr. Khaitan.—I think it should not only be retained, but it may be increased and I say so even in the interests of the handloom industry. I have practical experience of the consumers in Bengal, Bihar, United Provinces and the Punjab. Those who buy handloom goods buy them on the plea that they are fully swadeshi and that they are made from swadeshi yarn. If that assurance is taken away from the consumers, you will find that the amount of consumption of handloom goods will decrease. If you encourage the import of foreign yarn and handlooms begin to use imported yarn to a larger extent, then the confidence of the people that they are swadeshi goods will disappear and I think that the handloom weavers will suffer more than they would under a system of duties.

President.—This is more or less the point of view which was placed before us by the Ahmedabad Millowners' Association. It was precisely on this ground that they put it. Is that your view?

Mr. Khaitan.—I hold that view very strongly.

President.—There is another suggestion that has been made with regard to handloom and that is that an excise duty should be levied in order to constitute a central fund for the amelioration of the handloom industry.

Mr. Khaitan.—An excise duty of what kind?

President.—An excise duty.

Mr. Khaitan.—Are you referring to Mr. Advani's suggestion?

President.—It is not merely Mr. Advani's suggestion, but various people have suggested it. If you don't like the word "excise" you can call it a cess. A cess at the rate of 3 pies or 2 pies or a minimum of one pie should be levied on all cloth produced in Indian textile mills and the proceeds of this cess are to form a central fund from which contributions will be made to the various provinces for the development of the handloom industry, technical instruction and formation of Co-operative Societies and so on.

Mr. Khaitan.—The first thing that you have got to ensure is that the country should be made self-reliant in the supply of Indian piecegoods. That whatever cotton piecegoods are consumed in the countries are either supplied by Indian mills or by handlooms. You should give adequate protection. By adequate protection I mean that you should lay a prohibitory tariff wall, which except in the case of persons who must use a certain kind of cloth and who even would be prepared to pay 200 per cent. in their desire to use a particular kind of cloth will be no hardship. The first thing to be done is to make the country self-reliant in the matter of the supply of piecegoods. I myself feel that the salvation of the country—I do not know whether Mr. Chakravarti and Mr. Mohanbhai will agree with me and this is my personal view as it has not been discussed in our committee—ultimately does depend upon cottage industries and I personally would be prepared to sacrifice anything if really something substantial is done for the handloom weavers, whether the way you have pointed out to me is correct or not and I do not know if I will agree with that particular opinion. After the country is made self-reliant in the matter of the supply of piecegoods, the imported piecegoods cannot come in. I would certainly devise measures for the purpose of protecting the handloom against the big factories.

President.—Supposing we gave you next year protection adequate on the sort of scale that you have in view, supposing that happened next year, would you be prepared to have a cess levied?

Mr. Khaitan.—On that condition yes, not simply a recommendation but your recommendation must be passed into legislation.

President.—Supposing we gave you moderate protection and then we also suggested a cess and that cess was taken into account in determining the fair selling price?

Mr. Khaitan.—I will not agree for this reason. As soon as you call it moderate protection, it is always inadequate protection. If you give adequate protection—I am not mincing matters—it means a prohibitive tariff wall.

President.—You can levy 500 per cent. and be done with it.

Mr. Khaitan.—You can make it even 200 per cent.

President.—You are against the suggestion of the excise duty under present conditions?

Mr. Khaitan.—Yes, under present conditions.

President.—There is another suggestion and that is this that some kind of arrangement ought to be made for the distribution of the production of different cloths between the mill industry and the handloom industry. Coarser kinds of cloth must be left entirely to the handloom industry.

What do you think of that? Say 15s and below ought not to be produced by the mills.

Mr. Khaitan.—At the present moment, I do not agree, because we have not got adequate protection and if without protection you leave it to charkas and handlooms, I think imported goods will begin to come in. If you prevent Indian mills from manufacturing all those kinds of cloth and if you leave it simply to charkas and handlooms with the present tariff rate, unless you make it prohibitive, I feel that imported goods will begin to come in.

Mr. Gandhi.—In my book "How to compete with foreign cloth"—A study of the position of Handspinning, Hand-weaving and cotton mills in the economics of cloth production in India, published last year, I had mentioned two conditions. The first was a prohibitive duty on imports of foreign cloths and on yarn and after that is done the next step would be introduction of suitable legislation whereby the mills in India would be precluded from engaging themselves in the production of yarns, say below 12s, except calendered cloth, Dobbie Pattern, Jacquard Pattern, Twills, etc. But this could be effective only after a prohibitive tariff wall is imposed.

President.—Do the Chamber as a whole accept that view?

Mr. Khaitan.—This matter has not been discussed.

Mr. Chakravarti.—There is a talk that the handloom doesn't compete with the Indian mills and that is not a fact.

President.—There are classes of cloth where the handloom can compete effectively with the mill made cloth, but there are classes where they can't compete. If you will look at page 24, all these classes of cloth for which you have given us costs are 20s warp and 32s weft and warp not above 20s.

Mr. Khaitan.—All 20s.

President.—May I take it then that it represents the bulk of your production in the sense in which you feel the external competition. May I take it that way?

Mr. Khaitan.—In fact they form the bulk of our production of medium counts. I am talking of Kesoram Cotton Mills. It is only since last year that we have gone in for 40s × 60s and this year 50s × 70s. Before the year expires, we will go to 100s and 120s.

President.—I suppose you chose these, because it is only in respect of these that you could give us costs for a period of years.

Mr. Khaitan.—Yes.

President.—Would you be able to give us your costs in a similar form on higher counts for last year?

Mr. Khaitan.—Yes.

President.—Please look at Statement No. 7, and take the grey dhoti 44" × 10 yds. You can give us the costs of cloth of higher counts than these for just one year, last year for which figures are available.

Mr. Khaitan.—Yes, which particular counts you require?

President.—I should like to get 3 or 4 kinds above 40s. I leave the choice to you.

Mr. Khaitan.—We will send you the figures.

President.—I should like you in the case of each statement to indicate on what kind of output the costs are submitted.

Mr. Khaitan.—Yes. In 1929-30, the number of looms in their mill was smaller. Now they have almost doubled the number of looms.

President.—I don't think that we can make allowance for the difference in the number of looms, but I do think we ought to make allowance for double shift production. You give us the costs.

Mr. Khaitan.—Of 10 hours working?

President.—For 1931 give us the costs that you have incurred on the existing number of looms, but assuming that these looms are working a single shift of 10 hours?

Mr. Khaitan.—Yes.

President.—For India as a whole we must proceed on the basis of a single shift?

Mr. Khaitan.—Do you want from 1930?

President.—Only for one year and that is the very last year. Give it for the calendar year.

Mr. Khaitan.—Yes.

President.—With regard to your Statement No. 2, can you explain to me how exactly this conversion is done? I don't quite follow that. If you look at the table below on that page, you give us the spinning production. I take it that the first column represents the total amount of yarn manufactured in the mill?

Mr. Khaitan.—Yes.

President.—What is the second column supposed to be?

Mr. Khaitan.—It shows the number of spindles converted to 10 hours.

President.—That is to say, taking the production for 1930-31, supposing the whole of that production, *viz.*, 91·8 lakhs of lbs., had to be done by spindles working 10 hours, so many spindles would be required.

Mr. Khaitan.—Yes.

President.—How do you get that, if you are doing double shift?

Mr. Khaitan.—We are actually working 19½ hours.

President.—On the two shifts together?

Mr. Khaitan.—Yes. We convert that into 10 hours. It would not be exactly double the number of spindles; it would be slightly more than double.

President.—10 hours per spindle? At what rate do you take?

Mr. Khaitan.—This gives no indication.

President.—I cannot build anything on these figures.

Mr. Khaitan.—Nothing can be built. I have given this because you wanted it. We manufacture from 6 to 70 counts.

President.—Still I don't follow how you get 265 lakhs of spindles. I don't get that figure. Can you work out the arithmetic so that I may be able to follow? If you had a sufficient number of spindles in your mills, all working only 10 hours only, the number of spindles that you would require to make 91 lakhs of lbs. of yarn is 265 lakhs of spindles?

Mr. Khaitan.—Yes.

President.—How was that calculation arrived at?

Mr. Khaitan.—Supposing it is 58,000 spindles working 19½ hours a day, there are so many working days per year and then they have been converted to 10 hours.

President.—You start with the production per spindle?

Mr. Khaitan.—We don't start with the production. Suppose we took 58,000 spindles. They work 300 days. It comes to 1,74 lakhs. If the mill worked for 19½ hours, it would be so much and if it worked for 10 hours, it would be almost double. But again I shall point out that this average production that I have given you will lead to no results because various counts are manufactured. You cannot build anything on that.

President.—I don't propose to build anything on that. You are giving this (column 3) as the average on 20s conversion basis?

Mr. Khaitan.—Yes.

President.—Let me see how you got that?

Mr. Khaitan.—That is easy to get. Supposing for 40 counts we get 2 oz., it will be 4 oz. for 20s.

President.—You make it double. If you did the conversion on a purely arithmetical basis of that kind, it must bear the same proportion for 40s 40 : 20. Obviously the result would not be of any use.

Mr. Khaitan.—As a matter of fact, the number of hanks produced in respect of 40s is less than the number of hanks produced in respect of 20s. If the number of hanks is the same, then the calculation must be right.

President.—The standard figure that I have seen for 20s on a spindle per day is $6\frac{3}{4}$ oz.

Mr. Khaitan.—That is about our figure for 20s warp.

President.—Can you give us actual figures for different counts?

Mr. Khaitan.—I have already given you—see Statement No. 3, production per loom in 10 hours. That again is an average of all the different kinds of counts. But I have given you there the production in yards per loom.

President.—Can you give us the production of representative kinds of cloth, say 20s, 30s, 40s and 50s?

Mr. Khaitan.—We can give for 20s×24s and 30s×32s.

President.—They will be good enough for our purpose. Give us a statement showing that per loom per day?

Mr. Khaitan.—Yes.

President.—I had better have it on record the capacity and the equipment of the mills for which you have given costs. How many spindles have you?

Mr. Khaitan.—48,000 spindles, working double shift.

President.—And looms?

Mr. Khaitan.—In July or August 1929 we started this double shift system. Up to that time we were working 78,000 spindles single shift. From July or August 1929, we have been working 48,000 spindles double shift. In the case of looms I shall have to send you the figures later on. What happened was this. Formerly we had 1,250 looms. They were all working single shift. Then we added 500 looms. The total number became 1,750 looms. Then we started working 200 looms double shift.

President.—It is very complicated. You had better send us a detailed statement.

Mr. Khaitan.—Yes. To get rid of these complications what I have given you is our expense per spindle and per loom.

President.—As regards your expenditure per loom and per spindle I cannot judge it unless I know whether there has been double shift production because if you worked double shift, obviously your overhead would be lower. Then you have worked out on a loom and spindle basis. I shall not understand it unless I know the history of your production. If you will send us a short note, it would clarify matters, that is to say, the number of spindles and the number of looms actually on double shift production during the past two or three years?

Mr. Khaitan.—Yes.

President.—During these five years have you had any strike?

Mr. Khaitan.—Yes.

President.—Has there been any suspension of work?

Mr. Khaitan.—Yes, we had to.

President.—In which year?

Mr. Khaitan.—We had a lot of strikes. We had a strike in 1928. The strike was of a week's duration but then it took us one month to adjust matters again.

President.—Have you had a strike for as long a period as one month?

Mr. Khaitan.—Not in these years. In 1928, we had a strike which lasted for 3 weeks.

President.—Was there any suspension of work in 1930?

Mr. Khaitan.—Yes. The strike lasted for a week, but it upset the production for one month.

President.—I should like to have some idea of the kind of equipment you have. Can you give me the principal dates on which the bulk of the machinery was bought. If I took the date on which your mill was started, I might get a misleading idea of your mills?

Mr. Khaitan.—We have renewed our plant considerably between 1926 and 1931.

President.—To what extent was it renewed between 1926 and 1931? Would it be right to say that 75 per cent. was replaced?

Mr. Khaitan.—It has happened like this. In the spinning section we have renewed all the ring frames but in the preparatory machinery department, we have not renewed all.

President.—When you say that you have not renewed all your machinery in the preparatory department, what dates does the machinery represent?

Mr. Khaitan.—Some may be 20 years; some may be more and some may be less.

President.—Is there any machine which you have inherited from the time of the American Civil War?

Mr. Khaitan.—Which year was that?

President.—1865.

Mr. Khaitan.—We have a machine as old as 1872.

President.—Those mule spindles?

Mr. Khaitan.—Yes.

President.—Would it be correct to say that a third of your plant is more than 20 years old?

Mr. Khaitan.—Yes. We have renewed the machinery in the weaving department also.

President.—If you take the present plant and machinery, taking the whole of it, am I correct in thinking that about 50 per cent. of your plant and machinery has been renewed during the last five years?

Mr. Khaitan.—Of the whole machinery we can say that about 25 per cent. has been renewed in the last five years.

President.—And about 50 per cent. in about 20 years?

Mr. Khaitan.—Yes. The difficulty is that between 1913-14 and 1918 no machinery was available and renewal before 1913 means 20 years.

President.—You have not cared to make experiments with automatic looms?

Mr. Khaitan.—We got one but it was not successful. We apprehended a strike. Moreover the labourers are not efficient and we can't go in for standardised cloth.

President.—That is the whole trouble. There is just one point: in these statements that you are going to give us about the production per loom per day of different classes of cloth and also the production per spindle could you give us also an indication of the speed?

Mr. Khaitan.—Yes; we can give you the spindle revolution.

President.—There is just one other small point. A certain Association here—the Calcutta Flour Mills Association—have asked us that the duty on starch should be put back at the normal revenue rate because they have practically lost the whole of their custom with regard to starch and while practically all other stores and materials and even machinery are now dutiable starch has been left out, and they have suggested that a general revenue duty should be made applicable to it because they are now using Indian wheat and their consumption of Indian wheat has steadily declined because cotton and jute mills are now using imported starch. I should like to know before I meet the representatives of the Flour Mills Associa-

tion, supposing the Board was inclined to consider their suggestion and recommended a duty of, say, 20 per cent. on starch, by how much would that affect your costs?

Mr. Chakravarti.—That starch cannot be used for finer counts.

President.—But for the bulk of your production?

Mr. Chakravarti.—We use flour starch to some extent.

President.—What is this farina starch? What is the difference between flour starch and the other starch that you say you want for finer counts?

Mr. Chakravarti.—It is more adhesive.

President.—Have you got the chemical analysis of these things?

Mr. Khaitan.—We have got it and we can send it to you.

President.—Your point is that starch made out of wheat cannot be used for finer counts: what is the difficulty?

Mr. Chakravarti.—If we use this starch the feel of the cloth would be harsh.

President.—Supposing there was a duty of 20 per cent. on starch by how much would it put up your costs?

Mr. Chakravarti.—We will give you the exact figure. It will be about 3 pies per pound of cloth.

President.—3 pies per lb. is rather a big item. If we ever consider the suggestion that for the sake of Indian starch production a duty at this rate should be levied on imported starch, then obviously it is a fresh item which will add to your costs.

Mr. Khaitan.—That is so.

President.—If you look at Statement 7, are these costs given per pound?

Mr. Khaitan.—It is per pair.

President.—Two pairs being how long?

Mr. Khaitan.—10 yards.

President.—Can you give us the realised price per 10 yards? You can send us the figure later.

Mr. Khaitan.—Yes, I will.

President.—What we propose to do is to take the average price you paid on cotton of the kind from which this cloth was made.

Mr. Khaitan.—That we have given on page 25 of our representation.

President.—All that is necessary for you to give us is the realised price per 10 yards for all the four kinds of cloth given in Statement No. 7 for 1930-31. I should like also with regard to each kind of cloth to get the total output in the year 1930-31.

Mr. Khaitan.—That can be easily given.

President.—Or if you can give it for each of the years so much the better.

Mr. Khaitan.—We make these in ranges of 6 yards to 10 yards and the cost of production of, say, 6 to 9 yards is larger than the cost of production of 10 yards. This is just the complication that arises in the case of dhoties. I don't know if I can give you separate figures for $44'' \times 10$ yds., but I can give you the total quantity of manufacture of the Krishna Chap quality.

President.—Do you do different dimensions of the same counts?

Mr. Khaitan.—Yes.

President.—Is the border the same?

Mr. Khaitan.—Border is not always the same.

President.—You can give us your total production of the Krishna quality.

Mr. Khaitan.—That I will give you but it will include $\frac{5}{8}''$ border and so on.

President.—You may make a qualified statement and we will take that factor into account. You give us the total production of Krishna quality

and add a note indicating the variations in that quality. That is quite enough for our purpose. That difficulty won't arise in No. 2 Grey Shirting?

Mr. Khaitan.—No.

President.—What about No. 3?

Mr. Khaitan.—There are different widths. Length will always be the same but the width will differ.

President.—That means that it is made on different looms?

Mr. Khaitan.—These are the difficulties that arise when you cut things very fine and you come to some conclusion based on that.

President.—It is not merely for the sake of our proposals, it is in order to estimate the progress made by the industry that these figures are required.

Mr. Khaitan.—So far as our total production is concerned we have given that.

President.—What one has got to do in estimating the progress of an industry is to see the progress it has made in respect of particular lines of goods.

Mr. Khaitan.—Krishna quality is the only quality that we manufacture.

President.—You are going to give the costs of higher than 40s?

Mr. Khaitan.—Yes.

President.—There has been a very considerable increase in the quantity of finer counts produced; that by itself would give a complete picture of the progress made by the industry. If I am able to show in addition to it that the cost of producing these finer counts has also decreased, I can make a more complete picture of the situation.

Mr. Khaitan.—I am trying to see in what further way I can help you. You have asked me to give the total production of Krishna quality dhoti. I do not understand what indication it will give you from that point of view. It is not only one quality that we manufacture. It is only one of many and it is quite possible that in one month we may have manufactured 150 bales of Krishna quality and in another month 50 bales of another quality. It sometimes happens that we have more of Krishna quality. We stop manufacturing that quality and manufacture more of another quality.

Mr. Rahimtoola.—Is it another quality or another name that you give?

Mr. Khaitan.—Another quality for this reason: if we use 20s warp and 32s warp, even then it becomes a different quality. If we give 42 reed, 32 pick or 36 reed, 38 pick, it becomes a different quality.

President.—What I would like to know is to take a representative class of cloth of fine count and then I would like to be able to say the cost of manufacturing this cloth since 1926-27 has declined in this proportion. Now the decline in the cost of production is due to various causes. One is a sheer increase in output which brings down the overheads automatically. Apart from that there has been an increase in the efficiency of weaving, spinning and so on which means not merely that you have produced more, but within a specified period of time, your output has increased too.

President.—What I mean is if, in a year, you have produced instead of 100,000, 200,000, because you have more demand in the market, your overheads come down. If in addition to that you have not merely increased your output because you have a greater demand for the market but within a space of 10 hours your weaver has been able to make on this loom a larger quantity than before?

Mr. Khaitan.—As a matter of fact if you take the efficiency percentage that we maintain, would that not suffice for your purpose?

President.—Your production per loom per day?

Mr. Khaitan.—Especially in our mill and perhaps the same thing would apply to Mr. Chakravarti's mill. Although our total production does not show an increase, because instead of simply manufacturing from 20s warp and 24s weft, we have gone in for, say, 30s warp, 40s weft, 40s warp and 60s weft.

Mr. Rahimtoola.—Mr. Khaitan, I would like to know how many members are there of your Chamber?

Mr. Khaitan.—250.

Mr. Rahimtoola.—And the names of the mills that you have given are not members of your Chamber?

Mr. Khaitan.—Not all of them. Kesoram Cotton Mills and Mohini Mills are our members.

Mr. Rahimtoola.—The reason why I ask this is that you have written a separate letter that your views are supported by these. If they are members, there would have been no need of writing this letter.

Mr. Khaitan.—I will tell you how this note was prepared. The Committee of the Chamber appointed a Sub-Committee and to the Members of the Chamber forming that Sub-Committee were also added representatives of Bengal Luxmi Cotton Mills and in fact all the cotton mills were asked to send representatives. That formed a Sub-Committee of the Chamber with those gentlemen added. That became a kind of Sub-Committee to go into the question, and that Sub-Committee considered only the memorandum. So far as the questionnaire is concerned, it is the reply of the Committee of the Indian Chamber of Commerce.

Mr. Rahimtoola.—I take it that they not only support your views, but they had a hand in drafting the memorandum.

Mr. Khaitan.—Quite so.

Mr. Rahimtoola.—I take it according to your reply given this morning apart from the names of mills that you have given, there are two or three mills to complete the list of mills in Bengal.

Mr. Khaitan.—You mean list of mills working.

Mr. Rahimtoola.—Altogether about 10 to 11 mills are working in Bengal.

Mr. Khaitan.—That is only weaving. On the spinning side there will be more.

Mr. Rahimtoola.—There are 16 mills altogether given in the list.

Mr. Khaitan.—9 mills working both spinning and weaving; one mill working only weaving and three more mills only spinning.

Mr. Rahimtoola.—Is it a general practice in Bengal to have double shifts or is it only confined to one or two mills?

Mr. Khaitan.—Working of double shift has become a general practice. 4 mills have started working double shift of which one is partially working and three wholly working.

Mr. Rahimtoola.—I would like to discuss with you to a certain extent first paragraph of your representation which I consider to raise an important issue. First of all I suppose you don't mean to say seriously that the Tariff Board should ignore one of the terms of reference.

Mr. Khaitan.—We are quite serious.

Mr. Rahimtoola.—Therefore I would like to understand the position. You have been, Mr. Khaitan, in various committees and you know the terms of reference that are issued to a Committee cannot be ignored. You have got to deal with it. Your conclusions may be quite different. If you ask the Tariff Board to ignore a definite term of reference, I don't think that will be the correct procedure.

Mr. Khaitan.—Let us be quite clear. What we mean is that we don't like that Imperial Preference should be given both from the political point of view and from the economic point of view. From the political point of view we think that having regard to the condition in the country at present, if Imperial Preference is introduced it will further strain the relations between the Government and the people of the country and if I may refer you . . . .

Mr. Rahimtoola.—I would like to make the position clear at the beginning in order that you may not devote much time on the first point. As

far as Tariff Board is concerned, it has nothing to do with politics and it is for the Legislature to decide on what political ground it should or it should not introduce Imperial Preference. I think we had better confine ourselves to the second point.

Mr. Khaitan.—I may have a different view of the work of the Tariff Board.

Mr. Rahimtoola.—If you have, then I would like to hear it.

Mr. Khaitan.—The Tariff Board should also take into consideration the feelings of the people in regard to a certain matter. For example if in the case of cotton piecegoods you came to the conclusion that the feelings of the country were for prohibitive duties, I think you would be justified in recommending to the Government that having regard to the political situation this is the general feeling in the country.

Mr. Rahimtoola.—Apart from any statistics?

Mr. Khaitan.—Apart from any statistics when I mention political reasons . . . . .

Mr. Rahimtoola.—Should we judge the feeling and decide?

Mr. Khaitan.—That is not outside your purview. That is my reading of the functions of the Tariff Board. If you look at the question from the economic standpoint as we have expressly explained in our first representation, if you give Imperial Preference, the purpose of it can only be to make it effective. If you make it effective, you do not give adequate protection, because you can only make it effective by allowing goods to come from a certain country, *viz.*, Great Britain. If you do not make it effective, I don't think they care for Imperial Preference. For example even if you give them Imperial Preference, impose 200 per cent. on other countries, impose 100 per cent. on Lancashire, that is not the kind of Imperial Preference they want. The kind of Imperial Preference that they want is that their goods should be able to enter the country in spite of the protection given. If you do that, then protection becomes ineffective and you do not give that fillip to the development of the industry within the country which is the object of giving protection.

Mr. Rahimtoola.—I would like to understand the point a little better. I think you are referring to your remarks on page 13 of your letter. You say: "If effective protection against United Kingdom is given, Imperial Preference would be meaningless. If Imperial Preference is given, effective protection would be impossible and the progress of the industry would be retarded, to the grave detriment of the country". Here is India. India is producing certain kinds of cloth. Now we are looking at the Imperial Preference in two ways, as I understand. One is as far as the consumers' point of view is concerned that if a certain class of goods is not manufactured in India, then that class of goods should be allowed to come in duty free or with a certain lower duty in order that the consumer should not be penalised.

Mr. Khaitan.—That is not Imperial Preference.

Mr. Rahimtoola.—Differential duties you don't consider as Imperial Preference?

Mr. Khaitan.—Although I may not be able to agree with you.

Mr. Rahimtoola.—I am only giving you a hypothetical case. Your Imperial Preference means a preference between Japan and Lancashire. It has nothing to do with India.

Mr. Khaitan.—That is the only meaning of Imperial Preference.

Mr. Rahimtoola.—Some people have taken differential duty as Imperial Preference as well.

Mr. Khaitan.—If you carefully find out what are the things that are coming from Lancashire, what are the things that are coming from other countries, instead of giving it the name of Imperial Preference carefully select those goods and impose lower duties in respect of goods which only come from Lancashire and not from other countries, it would be nothing else.

Mr. Rahimtoola.—Differential duties.

Mr. Khaitan.—Giving *de facto* Imperial Preference without giving it a name.

Mr. Rahimtoola.—You have no objection to giving it.

Mr. Khaitan.—In the interests of the consumer, I don't think Imperial Preference is needed.

Mr. Rahimtoola.—That is to say you are objecting to both.

Mr. Khaitan.—Yes.

Mr. Rahimtoola.—I only want to understand your position.

Mr. Khaitan.—I cannot understand that to be Imperial Preference. If you impose a lower duty on one class of goods and a higher duty on another class of goods irrespective of the country of origin, then it may not be suitable or adaptable to the conditions of piecegoods trade, and it won't be Imperial Preference. But if you say on non-British goods 200 per cent. and on British goods 25 per cent., that is surely Imperial Preference.

Mr. Rahimtoola.—Whether the present differential duties which are in force at present. Before the *ad interim* report was acted upon, is that Imperial Preference.

Mr. Khaitan.—It was Imperial Preference openly.

Mr. Rahimtoola.—The second point is about the swadeshi movement. I understand that swadeshi movement in the country throughout is responsible partly for the fillip given to the Indian Textile industry.

Mr. Khaitan.—Yes.

Mr. Rahimtoola.—I am looking at the consumers' point of view. You told us this morning that there are about 800 shops in a particular locality and that most of the shops are now selling Indian goods. I take it that that means that the purchaser wants Indian goods as against foreign goods.

Mr. Khaitan.—Yes.

Mr. Rahimtoola.—Does he take into consideration the price factor or simply because it is swadeshi that he buys?

Mr. Khaitan.—As the result of swadeshi feeling it is a factor that certain goods are swadeshi and that those goods are preferred by the buyer irrespective of the price.

Mr. Rahimtoola.—The swadeshi feeling is such that you want swadeshi goods no matter what the price is, provided you wish to purchase the article.

Mr. Khaitan.—I should tell you one thing that swadeshi feeling has its limits. If an imported dhoti is available at one rupee, and the corresponding swadeshi dhoti is valued at Rs. 10 there may be some percentage of the population who would even then buy swadeshi goods—but in spite of the swadeshi feeling that there may be in the country, if there is such a divergence of price, I think that people would begin to preach swadeshi and practise precept.

Mr. Rahimtoola.—Your example is very drastic as I may call it. If it was a difference of one rupee between Indian and imported cloth?

Mr. Khaitan.—Then it would vary.

Mr. Rahimtoola.—The majority of the population would go in for swadeshi in that case.

Mr. Khaitan.—I do not know. For example let us take grey shirting which may be priced roughly at Rs. 7 or Rs. 8. If the difference be only 3 or 4 annas, those people would go in for swadeshi goods, but if the difference is one rupee which is not very drastic, then there would be a large number of people who would go in for imported goods rather than for swadeshi goods on account of the poverty in the country. That is why we have been saying that we should not place reliance on the swadeshi feeling and the movement for boycott for the development of our industry. The purpose of protection is that the industry should be able to build itself up irrespective of the existence of the swadeshi feeling.

Mr. Rahimtoola.—All I wanted to know is whether the present condition of sale is, as I have found references in your memorandum as well as in others, entirely due to the swadeshi feeling in the country irrespective of quality and price.

Mr. Khaitan.—As regards fine goods, the statement would apply in the form in which you have put it, but as regards goods made of coarse and medium counts, it will have to be taken with a qualification.

Mr. Rahimtoola.—You gave us to understand that as far as khaddar and the products of the handloom are concerned, the moment the consumer or the buyer came to know that there was foreign yarn used in an article, however cheap that might be, he would refuse it on swadeshi grounds.

Mr. Khaitan.—I am sorry you are introducing certain words which I did not use, *viz.*, "however cheap".

Mr. Rahimtoola.—You said that even if it was cheaper, it would be rejected.

Mr. Khaitan.—"Cheaper" is quite different from "however cheap". However what I meant to convey was this. For a small difference in price, if the buyer is assured that handloom goods are made out of swadeshi yarn and manufactured on handlooms, he would give preference to it. But if the consumers get a suspicion that handloom goods are manufactured out of foreign yarn, those buyers that have the swadeshi feeling—and most of them have swadeshi feeling—and those who go in for handloom goods, they would desist from buying the handloom goods unless they are sure that they are made of swadeshi yarn.

Mr. Rahimtoola.—The first question that is asked is about the yarn and not about the price.

Mr. Khaitan.—The difficulty is that there is nobody to put a question to. They go upon the general feeling. At present, that is the general feeling that handloom goods are swadeshi goods. I know that in certain cases foreign yarn is used. That is secretly done. Generally speaking most of the handloom goods are made out of swadeshi yarn but if the general feeling be that most of the handloom goods are prepared from foreign yarn instead of from swadeshi yarn, to that extent the handloom manufacturers will suffer a loss. They will lose their buyers. As Mr. Chakravarti points out to me even in the case of mills we have to put the stamp nowadays "manufactured from swadeshi yarn" and on handloom goods also in many cases you will find a stamp saying that it is manufactured from swadeshi yarn.

Mr. Chakravarti.—Even on handloom saris, they have that stamp.

Mr. Rahimtoola.—That means that the feeling throughout the country is for swadeshi goods manufactured out of swadeshi yarn?

Mr. Khaitan.—Yes.

Mr. Rahimtoola.—Reverting to the question I was asking about the price factor. The first thing is that the consumer wants to be satisfied that the goods are swadeshi, because preference is given to swadeshi goods. The second question is the price factor which does not come in the first instance?

Mr. Khaitan.—Quite right.

Mr. Rahimtoola.—I should like to ask you one or two questions about the Kesoram Cotton Mills with reference to the managing agency system. You have sent us the balance sheets of your Company. I take it that you bought this concern somewhere in 1924?

Mr. Khaitan.—It came under our management in 1924. We had not bought it.

Mr. Rahimtoola.—You took over the management?

Mr. Khaitan.—Yes.

Mr. Rahimtoola.—It was only in 1930 or 1931 that you got the ordinary share capital reduced?

Mr. Khaitan.—Yes.

Mr. Rahimtoola.—Your present system I understand is that you take about 3¾ per cent. on sales?

Mr. Khaitan.—No.

Mr. Rahimtoola.—Has that changed?

Mr. Khaitan.—We never charged that much. We are charging only 2 per cent.

Mr. Rahimtoola.—In the papers that you sent us, I saw that the figure 3¾ per cent. was mentioned.

Mr. Khaitan.—Originally there was a different system. At first it was 1 per cent. on gross sale proceeds and Rs. 3,000 per month.

Mr. Rahimtoola.—Somewhere you have stated in the memorandum that 3¾ per cent. is charged.

Mr. Khaitan.—You are perhaps including the managing agency commission and the selling agency commission which would come to Rs. 3-10-0.

Mr. Rahimtoola.—In the revised schedule, you have put down 2 per cent. on sales and 1 per cent. on purchase of cotton.

Mr. Khaitan.—You are perhaps referring to Statement No. 4 where we have mentioned discount and commission 3⅓ per cent.

Mr. Rahimtoola.—I don't mean that?

Mr. Khaitan.—May I explain that? It might subsequently be helpful. This is made up of two things. 2 per cent. represents the managing agency commission out of 3⅓ per cent.

Mr. Rahimtoola.—2 per cent. on what?

Mr. Khaitan.—On sales and 1⅓ per cent. is discount given to the buyer in the case of yarn.

President.—1⅓ per cent. is your selling charge and 2 per cent. your commission?

Mr. Khaitan.—It is the buyer who gets 1⅓ per cent. and there is no agent between us and the buyer.

President.—It practically is a taking from you?

Mr. Khaitan.—Yes, it is a trade discount.

President.—It is really a part of your charges?

Mr. Khaitan.—Practically it does not amount to that. What happens is that the buyer gets a discount and we always calculate that.

President.—So that in considering your cost in relation to the price that comes in as a charge?

Mr. Khaitan.—The price at which we sell includes Re. 1-5-3.

Mr. Rahimtoola.—You have also got one per cent. on purchase of cotton?

Mr. Khaitan.—Let us finish what we are discussing. Please see Statement No. 7.

Mr. Rahimtoola.—That was what I was thinking.

Mr. Khaitan.—Discount and commission charged amount to 3¾ per cent. This includes 2 per cent. for managing agents and Re. 1-10-0 for the selling agent. Both these things come to roughly 3¾ per cent. The selling agent has several expenses to meet. We have two systems of selling agents. One is that the selling agent has opened shops—in Grey Street and other places —where wholesale business is carried on. He has three such shops in Calcutta. He meets the expenses of those shops out of his commission. Another system is the system of travelling agents who go from Calcutta to the interior, meet the shopkeepers and sell goods to them. Out of their commission, they meet the travelling expenses.

Mr. Rahimtoola.—They all come out of the commission?

Mr. Khaitan.—Yes.

Mr. Rahimtoola.—The Company has merely to pay so much on sales?

Mr. Khaitan.—Yes.

Mr. Rahimtoola.—You divide this $3\frac{3}{4}$ per cent. between yourselves and the selling agents?

Mr. Khaitan.—Yes.

Mr. Rahimtoola.—There is another charge by the managing agents.

Mr. Khaitan.—Yes, you just referred to one per cent. on the purchase of cotton. Formerly there was no commission paid on the purchase of cotton and cotton was bought in the Calcutta market. We found that it would be cheaper if we had an organisation for the purpose of buying cotton or even Kapas—mostly Kapas we buy—in the place where cotton is grown.

Mr. Rahimtoola.—You buy directly from the cultivators.

Mr. Khaitan.—Yes. We placed this matter before the shareholders and said "At present you get all the cotton bought in Calcutta, the result of which is you don't get good quality and the price here is comparatively much higher. Therefore if you like, we can have an organisation for buying cotton in the interior and take all the trouble of keeping accounts and checking and seeing that good quality cotton is bought at a lower price". Then the shareholders agreed to pay us 1 per cent. on all cotton bought outside Calcutta. We do not get any commission on cotton bought in Calcutta. Whenever we find that we can get good quality cotton at a slightly cheaper rate in Calcutta than we can buy from the interior, then we buy it in Calcutta (there are certain occasions during the year when we can get like that) from Messrs. Ralli Bros. or Volkart Bros., or any other firm. When we buy cotton in Calcutta from them we do not get any commission. It is only when Kapas is bought and then ginned and sent over to Calcutta that we get that one per cent. commission.

Mr. Rahimtoola.—What is the percentage between the two? How much do you buy here and how much do you buy in the interior?

Mr. Khaitan.—About two-thirds out of Calcutta and one-third in Calcutta. I am only giving you a rough idea because in different years according to certain circumstances the proportions would change.

President.—Is this one per cent. supposed to represent your expenses?

Mr. Khaitan.—Partly expenses and partly for the extra trouble involved.

Mr. Rahimtoola.—I don't think that there will be much in the way of expenses as such because the travelling expenses of the man and the money that you pay to the cultivators will all be charged to the Company?

Mr. Khaitan.—On some occasions even Mr. G. Birla, son of Mr. R. D. Birla, has gone to different places to see what our people do and to check whether we get good quality or not.

Mr. Rahimtoola.—This 1 per cent. is for services rendered and not for actual out-of-pocket expenses?

Mr. Khaitan.—He does not charge the Company for his travelling expenses.

Mr. Rahimtoola.—But he would be entitled to do because he is going on behalf of the Company.

Mr. Khaitan.—As a matter of fact, we don't.

Mr. Rahimtoola.—This is for services rendered as such.

Mr. Khaitan.—Yes.

Mr. Rahimtoola.—Irrespective of the charge which the Company has got to bear?

President.—What exactly is the procedure? The thing is bought as Kapas?

Mr. Khaitan.—Yes.

President.—After that, you have to gin it?

Mr. Khaitan.—Yes.

President.—The ginning expenses are separately charged?

Mr. Khaitan.—Yes, they are charged to the Company.

President.—That does not come out of this one per cent.?

Mr. Khaitan.—No, that would be much more than 1 per cent.

Mr. Rahimtoola.—Is there any other commission?

Mr. Khaitan.—No.

Mr. Rahimtoola.—I find there is another one which I have not seen anywhere else?

Mr. Khaitan.—What is that?

Mr. Rahimtoola.—It is the guaranteeing commission of ¼ per cent. on the largest amount borrowed from the Imperial Bank of India?

Mr. Khaitan.—Formerly, Kesoram Cotton Mills were not allowed any credit by the Imperial Bank. When the Company came under our management, then the Imperial Bank agreed to open a cash credit account for Rs. 35 lakhs on our guarantee. The prevailing practice in Calcutta is when the managing agents give their personal guarantee they charge ½ per cent., sometimes even 1 per cent., but the lowest rate is ½ per cent.

Mr. Rahimtoola.—You are charging only ¼ per cent. That is the general practice in Calcutta?

Mr. Khaitan.—Yes.

Mr. Rahimtoola.—That means for the financing of the concern as well as the personal guarantee—that is what we understand as double signature—the managing agents are entitled to this commission?

Mr. Khaitan.—Yes. As a result of that, the Company gets money at the Bank rate of interest which on the average works out lower than the rate that will have to be paid if the money is borrowed from some other person.

President.—Do they get it actually at the Bank rate?

Mr. Khaitan.—Yes, in our case.

Mr. Rahimtoola.—The general practice you have stated is 1 per cent. over the Bank rate?

Mr. Khaitan.—Yes.

President.—The remuneration for offering your services is about ½ per cent.?

Mr. Khaitan.—Yes, for the half year because we make up accounts every half year. We do not have annual accounts.

Mr. Chakravarti.—The European firms generally charge 1 per cent. for the year.

President.—1 per cent. for the year is the usual charge?

Mr. Chakravarti.—Yes, all the Jute people charge that.

Mr. Khaitan.—I should make this clear that it is not on the total turnover but on the highest amount borrowed.

Mr. Rahimtoola.—It is only confined to the money borrowed from the Imperial Bank?

Mr. Khaitan.—Yes.

President.—Do not other Banks ask for double signature?

Mr. Khaitan.—In Calcutta that is the practice.

President.—In their case also ¼ per cent. will be charged.

Mr. Khaitan.—Yes.

Mr. Rahimtoola.—You have only mentioned Imperial Bank because your Company deals with Imperial Bank.

Mr. Khaitan.—Yes, irrespective of the Bank with which the account is kept.

Mr. Rahimtoola.—As regards office allowance, I find that it has now been discontinued?

Mr. Khaitan.—Yes

Mr. Rahimtoola.—Originally it was Rs. 3,000 a month.

Mr. Khaitan.—When it became 2 per cent., the office allowance was abolished.

Mr. Rahimtoola.—Originally it was less than 2 per cent.?

Mr. Khaitan.—Originally it was 1 per cent. I will explain that in order that it may not convey that we have been greedy in increasing it from 1 to 2 per cent. Why it was increased by the shareholders I should explain it to you. Formerly also the Company was paying 1½ per cent. It was paying 1 per cent. as managing agency commission and a ½ per cent. as a Banyan commission, so it was 1½ per cent. That 1½ per cent. you will not find. It has been deleted. It was paying actually at 1½ per cent. What was happening was that the goods were sold directly by the mills to the wholesalers. It was a very easy job but the Company was getting a lower price for its goods under that method of dealing. Then direct contact was established between the mills and the up-country shopkeepers and the mills were also opening their own shop in the city of Calcutta for the purpose of selling goods both to the commission agent direct and to the consumers direct in Calcutta. Now doing all these in place of the previous system of just making big contracts for 1,000, 500 or 200 bales to a big wholesaler involves much attention and worry on the part of the managing agents. The whole thing was placed before the shareholders by us. We pointed out to them that that was the previous practice but that the Company, we thought, would be benefited by our establishing direct contact with the consumers in Calcutta and with the up-country shopkeepers. We said that the Company would get a higher price. The shareholders after considering the whole thing came to the conclusion that they did not like the system of banian's commission being paid to the managing agents, so they asked us to have this new organisation set up to make up for additional labour and attention and said they would pay us 2 per cent. on the aggregate for all this organisation. So it was in this way that the commission was increased from 1½ to 2 per cent.

Mr. Rahimtoola.—At present you have got no shops of your own? The shops are run by your selling agents to whom you pay a certain amount of commission?

Mr. Khaitan.—The shops belong to the company. We pay them commission for running those shops and taking all the risk.

Mr. Rahimtoola.—You have nothing directly to do with it; it is the selling agent who is responsible for the sales, looking after the shop and doing propaganda and so on, and you pay him this commission?

Mr. Khaitan.—We have to do the advertising, we have to do the supervision.

President.—How then does he earn his commission?

Mr. Khaitan.—He attends to the shop; his man is there; he collects all the information from the market, hands it to us, learns our views and acts according to our instructions. If there is any default on the part of buyers he is financially responsible.

Mr. Rahimtoola.—He is a sort of guaranteed broker?

Mr. Khaitan.—Broker is not the term: he is the guaranteed selling agent.

President.—Supposing the buyer refuses to take delivery according to the contract then in that case your selling agent is responsible?

Mr. Khaitan.—Yes.

President.—Then I think it is practically the same system as in Bombay.

Mr. Khaitan.—Yes.

Mr. Rahimtoola.—I want to know about the sale system. Does the Government of India patronise Indian goods?

Mr. Khaitan.—Our experience is that if we give tenders direct they are not accepted. We have one or two men who make tenders to Government

and then in some cases our goods have been delivered to Government whatever the reason may be.

Mr. Rahimtoola.—The Indian Stores Department call for open tenders?

Mr. Khaitan.—Yes.

Mr. Rahimtoola.—And they don't assign any reason for rejecting tenders?

Mr. Khaitan.—For the last two or three years we did not submit any tenders.

Mr. Rahimtoola.—I would like to ask you as representative of the Chamber of Commerce whether any mills have submitted any tenders and if such tenders have been accepted? Or do all the mills share the same fate that you mentioned just now?

Mr. Khaitan.—The Bengal Luxmi Mills got some, I think but through some one.

Mr. Rahimtoola.—I suppose you don't concentrate much upon it?

Mr. Khaitan.—We don't concentrate because there is very little chance of success.

Mr. Rahimtoola.—The total amount of purchases of cotton goods by the Indian Stores Department must be considerable: I don't think it is a negligible quantity at all.

Mr. Khaitan.—Yes; police uniforms, military uniforms and so on.

Mr. Rahimtoola.—Having regard to what Mr. Khaitan said about the supply of goods, I want to know what the Government view is as regards the quality of Indian made goods.

Mr. Khaitan.—We can supply quite good quality to Government, but if they insist that it must be Hawke's nainsook, what can we do?

Mr. Rahimtoola.—You told me this morning about a strike; was it a strike in your mill only or was it a general strike?

Mr. Khaitan.—There was no general strike as such.

Mr. Rahimtoola.—As far as your mill is concerned it was only for a week? Had it anything to do with the wages?

Mr. Khaitan.—There was nothing about wages. In fact we have never been able to understand why there was a strike; I delivered a speech to them and asked them what was the reason for the strike and one man got up and said he was getting less stores. I found out on enquiry that there was no difference in the quantity of stores between the previous system and the new system. Another reason they put forward was that we had introduced a pass system so that more efficiency could be got: that they did not like and we had to give it up. In fact I could not understand why the strike came about and after a week they came back to work.

Mr. Rahimtoola.—During the last five years there havs been no serious strikes?

Mr. Khaitan.—Two or three years ago there was a strike which we considered as serious, but there was no general strike.

Mr. Rahimtoola.—On page 27 of your representation you give a commission charge of Rs. 1,82,204 for 1930-31. Does this mean only commission on sales or does it cover all your commissions that you have mentioned?

Mr. Khaitan.—It is the total.

President.—It is both commission and discount?

Mr. Rahimtoola.—No. It is commission on purchases of cotton plus commission on sales, also ½ per cent. commission for the bank. The total sales we had was Rs. 41,00,000 and Rs. 30,00,000, that is a total of Rs. 72,00,000. 2 per cent. on Rs. 72,00,000 is Rs. 1,44,000 and the total given here is Rs. 1,82,000 so it includes everything.

Mr. Rahimtoola.—In this office allowance that you were charging formerly was this also allowance given to managing agents for service rendered?

Mr. Khaitan.—In return for the office allowance we were expected to maintain the staff at the head office and we were saving a good deal of the 3000 rupees.

Mr. Rahimtoola.—Do I understand that you were actually paying out of the Rs. 36,000 all the office establishment maintained for mill purposes?

Mr. Khaitan.—Yes.

President.—Did that Rs. 3,000 include office rent?

Mr. Khaitan.—Yes.

President.—What office rent?

Mr. Khaitan.—Out of this Rs. 3,000 we were saving Rs. 1,500 or Rs. 1,600 a month.

President.—Saving in this sense that that was the balance left over after the expenses incurred directly at the head office on account of the company?

Mr. Khaitan.—Yes.

Mr. Rahimtoola.—What exactly is this banian's commission?

Mr. Khaitan.—If I may say so it merely operated as an eye wash because the selling agents were responsible if there was any default on the part of any buyer in paying for the goods the managing agents as banians charged half a per cent. for the same thing.

Mr. Rahimtoola.—It was 1½ per cent. but it was divided into two parts.

Mr. Khaitan.—They gave us the actual office expenditure and in return we built up that special organisation as a result of which the company benefited much more.

Mr. Rahimtoola.—You changed the whole system of selling organisation?

Mr. Khaitan.—Yes. In respect of our other mills at Delhi and Gwalior we are charging 2 per cent. on the gross sale proceeds.

Mr. Rahimtoola.—What about deposits? Do the mills here easily get private deposits?

Mr. Khaitan.—No.

President.—That system does not obtain here at all?

Mr. Khaitan.—No.

Mr. Rahimtoola.—I find from your statement that about Rs. 9 lakhs are due to the managing agents. Do the managing agents give deposits to the mills?

Mr. Khaitan.—Managing agents find the working capital.

Mr. Rahimtoola.—There is nothing like deposits on fixed term of interest?

Mr. Khaitan.—No.

Mr. Rahimtoola.—The rate of interest which you give in answer to question 31, namely 1 per cent. over the bankrate with a minimum of 6 per cent., is this the general rate?

Mr. Khaitan.—This rate is for very good companies.

Mr. Rahimtoola.—You would not call it the ordinary general rate?

Mr. Khaitan.—The minimum would be 7 per cent. for creditable companies.

Mr. Rahimtoola.—If we are to calculate it on this basis then you would be satisfied with this rate as representing the general Calcutta practice?

Mr. Ghandi.—It is not the Calcutta general practice: that would be much more.

Mr. Rahimtoola.—Would it be 2 per cent. over the bank rate?

Mr. Gandhi.—Yes.

President.—In most of the Calcutta industries that we have investigated they asked for an interest of 7½ per cent.

Mr. Chakravarti.—Many European firms charge 8 per cent. on debenture loans.

Mr. Rahimtoola.—Coming now to the duty on yarn, I find you are very emphatic that the duty should not be touched. How would we then in your opinion help the handloom industry?

Mr. Khaitan.—We would give them all the yarn they want and internal competition will see to the price.

Mr. Rahimtoola.—You know the condition of the handloom industry at present. In spite of the fact that nearly 20 lakhs of people are engaged in that industry the cloth that they manufacture is not able to compete with the mill cloth and I find in Ahmedabad there is a practice that the mills do not weave cloth below 18s. Is there anything like that ruling here?

Mr. Khaitan.—Generally speaking it prevails. Mohini Mills for instance do not manufacture any cloth below 25s. Keshoram Cotton Mills are at this time manufacturing some cloth below 18s but for two or three years we did not and the other mills I don't think go below 20s.

Mr. Rahimtoola.—Supposing it was put as a general proposition for the help of the handloom industry would your Chamber accept that?

Mr. Khaitan.—If you put it like this that there will be a prohibitive tariff wall so that the country will be self-reliant in the supply of cotton piece-goods.

Mr. Rahimtoola.—I am talking of the present practice which is existing under the shelter of the present tariff which was given in 1930. In Ahmedabad they do not manufacture anything below 18s.

Mr. Khaitan.—It suits Ahmedabad all right. In places like Delhi for instance, we get local cotton which is fit only for manufacturing 9s warp and 12s weft and the demand for cloth there is met out of 9s warp and 12s weft. By this I do not mean to say that there is no demand for the other cloth. If you prohibited the mills at Delhi from manufacturing cloth out of these counts, you might as well ask them to shut down. Similarly in respect of our mill at Gwalior if you asked us not to manufacture cloth below 18s, you might as well ask us to shut down. You will similarly find mills in other places, *viz.*, Nagpur Cotton Mills. If you asked them not to manufacture below 18s, you might as well ask them to shut down. So you have to take local circumstances into consideration and even Mahatma Gandhi did it. He permitted us to manufacture cloth below 18s at Delhi, but asked us not to manufacture below 18s in Calcutta. He took these local circumstances into consideration. His objection was that we should not manufacture cloth which would compete with khaddar. If you really want to help the handloom industry, I think the first thing you should do is to see that the country is supplied entirely by local production. Having done that, the next step should be to give some form of protection against Indian Mills, but that can only be the second stage.

Mr. Rahimtoola.—Till that time what is their position? Second stage will take some time to come even if we agree to your proposals.

Mr. Chakravarti.—They have got the co-operative system.

Mr. Rahimtoola.—Under the present circumstances, as you know, one of the terms of reference is that we have got to consider the question about the handloom industry and as a large number of population of India is concerned with it and are on the point of starvation, it is necessary that the Tariff Board should seriously consider how far they are able to help them.

Mr. Khaitan.—The first stage that I can think of is that we should block out imported piece-goods. Even now the quantity of imports is available both to the mill industry and the handloom industry. Taking the imports now at about 800 to 900 million yards, that is very good to both and the figures that we have got of handloom production is 1,400 million yards.

Mr. Rahimtoola.—It is 40 per cent. of the total production of India.

Mr. Khaitan.—The total consumption is 5,000 million yards and the production of handlooms is 1,400 millions. So it is about 30 per cent. and therefore if you block out foreign goods, then the handloom industry will

not suffer. The amount of imports will be available both for the development of handloom industries and the mill industry so that for the first stage you will be very fully helping the handloom industry by simply shutting out the imported goods. I hope I am making myself clear.

Mr. Rahimtoola.—I have heard that the yarn which is supplied in the market by the mills which ultimately goes to the handloom weavers has not got the same tensile strength as the yarn which is used by the mills themselves for their own cloth.

Mr. Khaitan.—That is quite correct for this reason there is a greater stress in the power loom than in the handloom. When we give a certain kind of yarn to the power loom, you have got to take into account the factor of stress that is imposed upon the yarn in the various processes through which the yarn has to go as also on the power loom itself. The handloom weavers want softer yarn and are satisfied with yarn of less stress. If they want a stronger yarn and more twisted yarn they can get it, but they will have to pay a slightly higher price.

Mr. Rahimtoola.—Their complaint is that the yarn which is bought in the Indian market by them is not suitable for their requirements and they say that they are compelled to buy imported yarn in spite of the fact that they have got to pay a heavy price.

Mr. Chakravarti.—You mean quantity or quailty?

Mr. Rahimtoola.—Both. That is the complaint.

Mr. Khaitan.—I don't think that complaint will stand the test of scrutiny.

Mr. Rahimtoola.—That is the complaint which is made.

Mr. Khaitan.—Who has made that complaint?

Mr. Rahimtoola.—Some people who have represented to us.

Mr. Khaitan.—I notice that our yarn is in great demand and we have hardly to maintain any stock of yarn, because it is all taken up.

Mr. Rahimtoola.—You are not aware of this?

Mr. Khiatan.—Not only I am not aware of that, but my experience is the other way about.

Mr. Rahimtoola.—I would like to understand something about artificial silk yarn. You know at present there is a duty on it. Are any of the mills manufacturing silk yarn?

Mr. Khaitan.—No. Since the congress agitation, no mill is using artificial silk yarn.

Mr. Rahimtoola.—Are they using silk yarn?

Mr. Khaitan.—To a small extent they use for borders.

Mr. Rahimtoola.—Artificial silk yarn doesn't come into competition at all.

Mr. Chakravarti.—It does come in competition with handloom.

Mr. Rahimtoola.—I am takling about the mills.

Mr. Khaitan.—Competition is really between our cloth and the articial silk cloth, that is imported chiefly from Japan.

Mr. Rahimtoola.—That is what you call an indirect competition.

Mr. Khaitan.—Direct and indirect are very often used. I have never myself been able to understand what is meant by direct and indirect competition.

Mr. Rahimtoola.—Direct means you are not making artificial silk goods at all.

Mr. Khaitan.—Competition is very direct. Make it indirect, but the competition is very direct.

Mr. Rahimtoola.—It is only the way of putting it. Direct means that you are not making the same quality.

Mr. Khaitan.—I am trying to impress upon you that although it is called indirect competition, it is direct competition.

Mr. Rahimtoola.—It may be in a sense.

President.—It is direct competition of a secondary kind.

Mr. Khaitan.—Even that I would object to.

Mr. Rahimtoola.—You have given us the loss percentage of yarn in the manufacture of cloth as 4·63 in answer to question 20 and this morning you said something about 2½ per cent. I want to understand what the actual percentage is?

Mr. Khaitan.—This loss percentage is calculated on the yarn consumed and this morning we were calculating on the cloth.

Mr. Rahimtoola.—We said on the gross amount of yarn, *viz.*, 7 lbs. could manufacture cloth of 8 lbs.

Mr. Khaitan.—We were calculating this morning on the cloth.

President.—Even if you calculate on the cloth, supposing it is 2·5 per cent., that does not correspond to 4·6 on the yarn.

Mr. Khaitan.—Again the duty comes in between the coarser goods and the finer goods.

President.—Supposing we accepted 2½ per cent. as the correct figure based on cloth, that is to say the wastage of yarn calculated on the weight of cloth?

Mr. Khaitan.—You have to deduct the amount of size used.

President.—Supposing you took 7 lbs. of yarn as corresponding to 8 lbs. of cloth?

Mr. Khaitan.—May I just explain it? For example we have got to give weft to the loom. A certain quantity of yarn remains on the pirn. The whole quantity is not taken out in the case of finer yarn. A small quantity remains on the pirn in the case of coarser counts. The quantity that remains on the pirn is heavier in weight than in the case of the finer counts and this morning we were calculating for the finer counts and at present most of the qualities that we manufacture is of the heavier kind, 20s warp and 24s weft, 32s weft.

President.—What then is your point? 4·63 is the percentage of yarn calculated on the weight of cloth in respect of production of which the bulk is coarser counts, am I right?

Mr. Khaitan.—Yes.

President.—And the 2½ per cent. that you gave this morning, is that the percentage based on the weight of cloth or on the weight of yarn?

Mr. Khaitan.—On the weight of cloth.

President.—That is in respect of finer counts.

Mr. Khaitan.—Quite so.

Mr. Boag.—This 4·63 is the percentage of what?

Mr. Khaitan.—On gross yarn.

President.—4·63 is on the weight of yarn. That would be somewhere about 3¾ on the weight of cloth.

Mr. Khaitan.—If you take into account more sizing required on cloth, you will get even a smaller percentage.

President.—I think you had better send us a considered statement with regard to 4 different kinds of cloth for which you have given us costs. With regard to each kind of cloth, give us the wastage of cotton, the wastage of yarn and the additional weight imparted by size.

Mr. Khaitan.—Yes.

President.—Please tell us in each case what the percentage of wastage is based on?

Mr. Khaitan.—Yes.

Mr. Boag.—We want the same as regards finer cloth.

Mr. Khaitan.—Yes.

Mr. Boag.—As regards your answers to questions 39 to 44, you refer generally to your representation and offer to discuss the question. We discussed some of them this morning and this afternoon. But there are one or two matters covered by those questions about which I don't think you have expressed your views at all. One of them is the relative value of *ad valorem* or specific duties as a means of protection.

Mr. Khaitan.—We have no fixed ideas about that. We have got one fixed idea and that is this there ought to be a prohibitive duty.

President.—That I understand.

Mr. Khaitan.—Whether you give it in the form of an *ad valorem* or in the form of a specific duty, we don't care.

President.—The *ad valorem* can easily cease to be prohibitive.

Mr. Khaitan.—Yes, but if it is made prohibitive.

Mr. Boag.—Your 200 per cent., for example, will make full allowance for that kind of drop.

Mr. Khaitan.—Yes.

Mr. Boag.—You have not considered the question of specific duty.

Mr. Khaitan.—We have no fixed ideas about that. As I told you I have as much liking for *ad valorem* as for specific duties, provided either is adequate.

Mr. Boag.—You have not decided whether one system of duties is more likely than the other to give you the adequate degree of protection that you want.

Mr. Khaitan.—Give us adequate protection. I think that specific duties would be better.

Mr. Boag.—You think that a specific duty would be better?

Mr. Khaitan.—Yes.

Mr. Chakravarti.—For administrative purposes also, it would be preferable?

President.—They put it differently.

Mr. Boag.—Have you considered at all in that case whether one rate of specific duty could be applied to all kinds of cloth or if not how many rates would you suggest?

Mr. Khaitan.—If you calculate the adequate specific duty on the finer classes and apply that to the coarser kinds, that would satisfy us.

President.—It would suit you admirably.

Mr. Boag.—Do you say that even as a representative of the consumer?

Mr. Khaitan.—Yes, because we are convinced that if you give adequate protection there will be enough internal competition to protect the consumer. That is also what we have pointed out in our memorandum.

Mr. Boag.—I know you have mentioned that. There is one other matter which I want to ask you about and that is your answer to question 7 dealing with railway freights. Are these rates that you have given correct?

Mr. Khaitan.—Recently, the railway freight from these stations has been reduced. What we are now paying from Adoni to Calcutta is Rs. 1-11-0. Formerly it used to be Rs. 3-8-0.

President.—These are the current rates?

Mr. Khaitan.—Yes.

President.—Are they O. R. or R. R. rates?

Mr. Khaitan.—R. R. rates. We have got very high rates of freight from the Punjab, United Provinces, etc., and then I should point out to you that the railway freight that we have given from Broach and Surat as Rs. 1-12-0 to Rs. 2-0-0 has been taken off recently. They have increased it.

President.—What is it now?

Mr. Khaitan.—It is much higher than what we have mentioned.

Mr. Rahimtoola.—You have mentioned the rate as Rs. 1-12-0 to Rs. 2-0-0.

Mr. Khaitan.—Yes, but it is now much higher. On our representation they gave us the railway freight from Broach district stations to Calcutta on the same basis as from Bombay to Calcutta. The rate from Bombay to Calcutta is Rs. 1-8-0 per maund and now they have withdrawn it.

President.—Do you know the present rate?

Mr. Khaitan.—No.

President.—Send us that figure later on?

Mr. Khaitan.—Yes.

President.—Where do you get the bulk of your cotton from?

Mr. Khaitan.—Both from South India and from the Punjab. We get mostly from the Punjab and we are very anxious that the railway freight from the Punjab to Calcutta should be reduced.

President.—How does the distance compare from a station like Tuticorin and the Punjab.

Mr. Khaitan.—I think that they are about equal.

President.—I suppose you know the special rate—the lower rate—is determined by the steamer rate?

Mr. Khaitan.—Yes. What we have been telling is that the railway freight from the Punjab to Calcutta should also be determined by the steamer rate.

President.—What kind of steamer rate?

Mr. Khaitan.—I am just pointing that out to you. We filed a case before the Railway Rates Advisory Committee and pointed out to them that there was an arrangement among the railways whereby the railway freights from Delhi to all the ports, Karachi, Bombay and Calcutta were equalised. Now Delhi was an inoperative station, but the stations in the Punjab were really the operative stations and therefore we submitted that that arrangement of equalising the rates to different ports should operate from the stations in the Punjab and not from Delhi, so that the railway rate from the Punjab to Calcutta should be the same as from the Punjab stations to Karachi.

President.—The rates from Lyallpur to Calcutta must be the same as the rate from Delhi to Bombay and Delhi to Karachi.

Mr. Khaitan.—The rate from Lyallpur to Karachi must be the same as that from Lyallpur to Bombay. Now what is happening is that there are two kinds of freight. One is from the stations in the Punjab *viâ* Karachi to Bombay and the other is the all rail route from Lyallpur and other stations *viâ* Bhatinda to Bombay. Now the Railway Rates Advisory Committee accepted our principle that the freight from the Punjab stations to Calcutta should be the same as from the Punjab stations to Bombay but in determining the rate they applied the all rail route rate from the Punjab stations to Bombay which was an inoperative rate. Most of the cotton from these western stations in the Punjab went *viâ* Karachi to Bombay. In applying the principle they operated it wrongly. Upon that we sent a big representation. If you will kindly take the trouble of reading it, you will find it very interesting. We sent that representation to Sir George Rainy by way of appeal and when he came down to Calcutta and met the committee of the Indian Chamber we asked him "Have you read our memorandum of appeal". He said "No". I said "You are very curtly telling us that you have not read it. We spent some money, time and attention to prepare it and you simply say "No". He said "What is the use of reading it when I am not going to grant it?". This is a very curt way of dealing

with representations, but if you will kindly go through it, you will see the injustice done to us. We have given the calculations very accurately. The general principle of railway freight is that it should be somewhere between the cost of service and the value of service. We have shown that the value of service is about Rs. 2-4-0.

President.—It is very difficult to apply that. No railway man will accept that.

Mr. Khaitan.—I pointed that out recently to the Agent of the East Indian Railway. Even their Rates Manager Mr. Crawford admitted in the course of his evidence before the Railway Rates Advisory Committee that Rs. 2-4-0 was the proper value of the service. Even then they would not do us the justice.

President.—I think that the thing to say to the Railway is that they will get more traffic.

Mr. Khaitan.—That is what we have been telling. The East Indian Railway themselves are anxious to do it, but the Railway Board won't let them do it.

President.—No recommendatien in the matter of freight ever made by the Board has ever been accepted. There is just one point I want to ask you about the working capital. If you look at page 26, I may assume, may I not, that the average working capital required by you is about a third of the total of the year's works expenditure? That is approximately correct?

Mr. Khaitan.—It is approximately right.

President.—You have given us certain figures about the cost of manufacturing hosiery goods in your mill. What we propose to do is to discuss the hosiery costs with the Hosiery Association. It is really on the costs of these smaller factories that we should base our proposals?

Mr. Khaitan.—That is what has been suggested.

President.—There is one general point that I want to raise. You know that the Tariff Board in 1926 rejected the proposal for granting assistance to the Hosiery Industry on the ground that if a duty were imposed on the imported hosiery goods, it would have the effect of leading textile mills undertaking the production of hosiery goods and therefore the effect of the duty would not benefit the small factories but would benefit only the textile mills. On that ground they refused to consider the question of a protective duty for the hosiery industry. We have to meet that objection in this enquiry since that has been definitely raised. You are here a mill interested in the production of hosiery goods and therefore from the point of view of a mill you can explain the position to us. As I understand it, the situation is this. The demand for hosiery goods is a demand that changes for one thing from season to season. You want one class of hosiery goods for the colder part of the year and you want another class of hosiery goods for another part of the year. Then, since the general form that the hosiery goods take is vests, wearing apparel of that kind, the demand for special classes of goods as distinct from standardised goods would be much greater in the case of hosiery goods than in the case of piece-goods. I want a vest that will suit me and there are ever so many sizes that would have to be produced. I may need a particular kind of design, not merely a particular kind of size, so that the man who works a small factory is in a position to adopt his output to the varying requirements of the market more readily than a mill which undertakes standardised production. Supposing I put the distinction between the hosiery goods and piece-goods on that basis, do you think that I should be stating the position fairly correctly?

Mr. Khaitan.—I don't think so.

President.—Why?

Mr. Khaitan.—In Calcutta we have been manufacturing in the Kesoram Cotton Mills what we call *ganjis*.

President.—What are they like? Are they vests?

Mr. Khaitan.—Yes, with short arms made of 16 counts and they are sold throughout the year. We make various sizes.

President.—How many sizes do you make?

Mr. Khaitan.—We make from 22″ to 38″ with variations of 2″.

President.—That will mean 12 different sizes?

Mr. Khaitain.—9 sizes and we are able to supply them with the greatest ease. They are sold throughout the year. Now as regards the distinction that you are making between different seasons so far as undershirts of these counts are concerned, there is no difference between the different seasons?

President.—The difference is in the matter?

Mr. Khaitan.—What happens is that in the winter they put on the undershirt and something over it. In the summer, they simply put on the undershirt.

President.—What difference does it make?

Mr. Khaitan.—They are sold both in the summer and in the winter. In the winter season, the demand is also there but is much smaller than that for woollen undershirts for example or some coarser undershirts. But that demand relatively speaking is much smaller than that for the uniform type that is wanted throughout the year.

Mr. Rahimtoola.—Further the demand for woollen things is limited to a few months?

Mr. Khaitan.—Yes, it begins in October or so and comes to an end in December, so that any hosiery manufacture would have to manufacture the standardised kind for sale throughout the year and may turn some of his knitting machines to the other kind of goods for winter sales. As regards the different kinds that you mention, namely V shaped and buttoned varieties, there is demand for them; some like to buy V shaped and some buttoned varieties.

President.—The point that you are trying to get at is this that although there are differences in sizes and in designs, these are not such that standardised production cannot be undertaken.

Mr. Khaitan.—Standardised production is very helpful in hosiery goods.

President.—If it is very much needed, then obviously the mills have an advantage?

Mr. Khaitan.—Yes, to a certain extent.

President.—Standardised production is possible only on a large scale?

Mr. Khaitan.—Standardised production even smaller factories can do?

President.—The moment you grant that standardised production does pay, you are really arguing for a large scale production.

Mr. Khaitan.—Yes.

President.—May I raise another point?

Mr. Khaitan.—I hope I won't be misunderstood. What I intended to convey was that the advantage that the present hoseiry factories in textile mills have is that they get their own yarn, and their own power from the engine or turbine generator whichever they have for the purpose of manufacturing the other commercial cloths and they don't have to keep a separate engineer.

President.—You mean the mills?

Mr. Khaitan.—Yes, they don't have to do that whereas smaller factories get their power from Electric Supply Corporations or they maintain oil engines for the purpose of running their factories and it is there that the textile mills get their advantage over others.

Mr. Rahimtoola.—Also overheads?

Mr. Khaitan.—As regards overheads it is the smaller factory which gets an advantage over us because they do not have to employ engineers for example at a large remuneration.

President.—That would depend on the size of the factory. If you have a fair sized cottage factory—I was surprised at the figures of overhead expenditure incurred in a hosiery factory—there establishment charges and so on are fairly high.

Mr. Khaitan.—It is quite possible that they are employing managers and others but in the Calcutta hosiery factories the proprietors themselves manage the concern. I have not been able to compare their overheads with ours but from what I have heard as regards overhead expenditure they score over us.

President.—There is another point. In regard to the labour costs in the hosiery industry, I find from your statement on page 30 that as far as labour charges are concerned the biggest single item is the tailoring cost?

Mr. Khaitan.—Yes.

President.—On yarn the textile mill has no advantage because after all if you have got a hosiery department you take your yarn at whatever is the economic cost.

Mr. Khaitan.—I must admit that there we score over the small manufacturer because we save baling charges and so on.

President.—If you had large scale production you would score as regards bleaching and dyeing charges, won't you?

Mr. Khaitan.—We have not been able to score there. The hosiery that we manufacture we once bleached in our bleaching plant but that bleaching was not liked by the market and ultimately we had to give the goods for hand bleaching, and therefore we do not score there.

President.—What about standing charges?

Mr. Khaitan.—As regards "Power" I have already told you that the expenses we incur in generating electric current is lower than the rate at which they get their power. "Stores and Accessories" is the same in both cases; "Salary and Provident Fund" there they score over us; "Wages Daily Hands" if anything they would score over us there because of the greater vigilence that the proprietor of a concern can exercise over a small factory. "Interest" should be the same in both cases except for the rate of interest.

President.—Coming to piece works wages, I want to know what the position there is.

Mr. Khaitan.—It would be the same in both cases.

President.—That is to say all the charges in the tailoring department must be the same because the system is the same and the way the department operates is the same?

Mr. Khaitan.—Yes.

President.—That would be so also on item No. 5?

Mr. Khaitan.—Yes.

President.—Packing must be the same?

Mr. Khaitan.—Yes. I think you will find in hosiery industry that there is not much difference in expenditure between a hosiery department attached to a textile mill and one run independently in a small way.

President.—The real position is this. I am trying to see what kind of argument I can adopt in order to meet the objection raised by the Tariff Board in 1926. The first argument that I tried to suggest by way of meeting their argument was that standardised production does not have such a big place in hosiery goods as in piece-goods, that difference in size, difference in designs and so on would make standardised production rather difficult. You don't accept that argument.

Mr. Khaitan.—Not generally.

President.—We leave that out for the time being. The next is the analysis of costs. If you look at the cost statement here. Let us take, as far as material costs are concerned let us take it that a large factory and a small factory stand on the same foothing. As far as packing is concerned it is very largely a question of material—cardboard boxes, wooden boxes and so on so that if you add the two together, Rs. 9,625 and Rs. 1,050, you get about Rs. 10,000. As far as Nos. 4 and 5 are concerned there also a small factory has no particular advantage: that is about Rs. 5,000. Therefore out of a total expenditure of about Rs. 18,000 in regard to Rs. 15,000 there is no disadvantage that the small factory necessarily has. Am I right?

Mr. Khaitan.—It would be more than Rs. 15,000.

President.—As far as the other Rs. 3,000 is concerned, you say that as far as bleaching is concerned you have no advantage so that goes out. The only advantage you have is in regard to power.

Mr. Khaitan.—In fact we find from our actual experience in the market that they are sometimes able to undersell us because of the reason that we have got to employ selling agents. They don't employ selling agents, and the commission of the selling agent in the case of hosiery is quite a good deal. We give 18¾ per cent. discount out of which 12½ per cent. goes to the buyer and 6¼ per cent. goes to the selling agent. In the case of the small factories they don't incur that at all.

President.—The more I investigate the textile industry the more I feel that none of the modern economics about the conditions of large scale production seem to hold good, because the smaller mills in large parts of the country appear to be doing much more efficiently than the larger mills which are producing a great deal more.

Mr. Khaitan.—Yes. Our mill in Delhi is making larger profits than our mill in Calcutta although that mill is equipped with 500 looms whereas this one has 1740 looms.

President.—Amalgamation schemes are everywhere breaking down.

Mr. Khaitan.—I have never believed in amalgamation schemes: personal supervision is a great factor. I will give you another instance. We have a mill in Delhi: then we thought that having a mill in Gwalior we would be able to save in overhead expenses. We absolutely failed.

President.—May I summarise this point. As far as your knowledge goes the only item in respect of which the textile mill may have advantage in the production of hosiery is power?

Mr. Khaitan.—Yes, and as against that the small factory owner gets advantage in overheads and other things.

Mr. Gandhi.—When the last Tariff Board reported, in coming to the conclusions to which you invited our attention just now they mentioned that the applications reached them too late to permit of their investigating into this and coming to a conclusion.

President.—I am not concerned so much with the actual proposals that they make as with the arguments they use.

Mr. Gandhi.—As regards argument they say that they had no opportunity to investigate the general conditions.

Mr. Khaitan.—I can tell you that the hosiery industry is one that lends itself very easily to adaptation by the middle class people. With a small amount of capital they can have a factory in their own house and earn a good living out of it.

Mr. Rahimtoola.—The competition is mainly from Japan?

Mr. Khaitan.—The rate at which Japan is selling hosiery at present is also ruining them at the present moment. Out of Rs. 1,72,000 worth of goods imported in one year Rs. 1,43,000 was imported from Japan.

President.—Tell me what is the position with regard to the samples you showed us this morning. These are all imports from the United Kingdom?

Mr. Khaitan.—Yes and are sold as swadeshi goods because they do not bear any mark.

President.—How long have they been in the market?

Mr. Khaitan.—Instead of our having to copy them they are copying us in our piece-goods.

Mr. Charkravarti.—One bale contains 200 pairs of dhoties and saris, dhoties with 2″ border and saris with wider borders, and they sell these at Rs. 2-4-0 or Rs. 2-3-0 a pair.

President.—What counts are these?

Mr. Chakarvarti.—70s × 80s. (Shows the mark on a pair of dhoties).

President.—Does this mark resemble any particular mark in the market?

Mr. Chakravarti.—No. But they copy the Bengali types we put . . . .

President.—Although it has the appearance of a swadeshi cloth so long as the marks are not the individual marks of any particular manufacturer the Act does not apply.

Mr. Khaitan.—The present Act does not prevent them from passing off such goods as swadeshi. This quality we sell at Rs. 3-6-0 and they sell at Rs. 2-3-0 including saris (sample shown).

Mr. Chakravarti.—There is one other factor to which we would like to draw your attention, and that is the question of freight on piece-goods to which we refer on page 22. The freight from Calcutta to Kushtia is As. 8-4: the goods to United Provinces go *viâ* Naihati which is 24 miles from Calcutta. If you take a place like Lucknow the freight from Calcutta is Rs. 1-13-0, but from Kushtia to Lucknow the freight is Rs. 3-1-0.

President.—You find that kind of thing invariably in rates; they don't calculate in strict proportion to the mileage.

Mr. Chakravarti.—They don't but the industry suffers.

President.—As I told you I am not very keen on making any proposals about railway freights.

Mr. Gandhi.—If you bear in mind the handicaps the industry suffers from, that would help us.

BENGAL NATIONAL CHAMBER OF COMMERCE.

Evidence of Messrs. AKHIL BANDHU GUHA, ASHUTOSH GUHA, SURENDRA NATH BISWAS and SUDHISH RANJAN BISWAS, recorded at Calcutta on Tuesday, the 13th September, 1932.

President.—Gentlemen, you represent the Bengal National Chamber of Commerce?

Mr. Guha.—Yes.

President.—How many cotton mills in Bengal are represented in the membership of your Chamber?

Mr. Guha.—Four.

President.—How many of them are located in Calcutta?

Mr. Guha.—One in Serampur which is practically Calcutta.

President.—I am sorry, Gentlemen, that your replies to the questionnaire arrived rather late and I have not been able to study them with the care that they deserve.

Mr. Guha.—I was not here. I recently came from Dacca.

President.—Some of the statements contained in your replies to the questionnaire so far as I have been able to study them are very interesting and will be of assistance to the Board. Since I have not been able to study them in detail, I am going to ask you to-day generally on the issues that you have raised. I find from your replies to the questionnaire that you have left over your replies to questions 39 and 40 for your oral examination.

Mr. Guha.—That is so.

President.—They are questions relating to the form of protection. I think I had better raise the question straightaway. But before I do that in your representation you suggest that you would like a uniform duty of 20 per cent. That is in the representation which you sent us dated 7th of June.

Mr. Guha.—Yes we want a uniform rate of duty.

President.—That is to say with regard to the particular level at which the uniform duty should be fixed, you are prepared, may I take it, to leave that for adjustment by the Board with reference to the costs of the Indian industry and the price realised by the Indian industry.

Mr. Guha.—That is our position. The actual figure is a matter of adjustment and calculation hereafter.

President.—What precisely is your view regarding specific duties?

Mr. Guha.—There ought to be specific duties and *ad valorem* duties.

President.—You want more or less the form of the duty which is now applicable to plain grey applied to all classes. That is the position?

Mr. Guha.—Yes.

President.—In that case the specific duty would be the minimum duty.

Mr. Guha.—Yes.

President.—Whatever falls occur in the prices of imported goods, the specific duty will remain as a minimum level of protection for the Indian industry.

Mr. Guha.—Yes.

President.—I do not know if you have any views regarding the difficulties of administering specific duties.

Mr. Guha.—Supposing you have to administer the *ad valorem* duty, the position is the same. They will send you the goods from other countries. You will have to find out the price and calculate the *ad valorem* duty. Similarly in the case of specific duty it is the same. I do not see why there

should be any difficulty, though Mr. Hardy says that there are difficulties. As for myself I do not know what difficulties can there be in having *ad valorem* duties.

President.—Could you say from your knowledge of piece-goods that a specific duty assessed on a basis of weight could be applied to all classes of piece-goods?

Mr. Guha.—The price of finer goods is much higher than coarse goods.

President.—It would be worked out like this. We take the costs of the Indian industry in regard to the manufacture of a cloth woven from higher counts. Let us take for example say 40s × 50s. We try to find out what it costs in a representative Indian mill to manufacture cloth of 40s warp and 50s weft and then they have got their costs and then add the necessary depreciation and interest on working capital. We take the price which that mill is actually able to realise on it. From the realised price we deduct the duty. The difference between the two we fix as the measure of protection required by the industry. That is fixed let us say as a specific duty. Supposing that specific duty is applied to all classes of goods in that category?

Mr. Guha.—Only 40s × 50s.

President.—The duty which is calculated on the cost of 40s × 50s, supposing it is bordered grey, that duty which is calculated on 40s × 50s is applied to all classes of bordered grey?

Mr. Guha.—Irrespective of counts.

President.—Yes. We try to find out their costs of 40s × 50s per pound.

Mr. Guha.—Let us take it at Re. 1.

President.—That duty of one rupee would be applied to all counts of bordered grey.

Mr. Guha.—Supposing it is 20s × 30s, that costs 14 annas a lb.

President.—It is almost 100 per cent. The point raised by the Indian mills which I want to put to you is in regard to the lower counts. The Indian mills are already in a position to supply practically all the requirements of the country. They are either already in a position or have almost reached that position. Therefore you can trust to internal competition for securing that the prices realised on lower counts would be determined rather by internal competition than by reference to the import price plus duty. Therefore if a duty which has been calculated with reference to 40s is applied to 20s, the price of 20s would not raise to the extent of one rupee, but as the result of internal competition, it would rise to a smaller extent. That is the argument which has been used. You need not commit yourself to the extent to which that proposition is true. Do you think there is general force in that argument?

Mr. Biswas.—Goods of lower counts require lesser protection than the goods of finer counts.

President.—Can we depend upon it that a duty which is calculated with reference to higher counts will not be reflected to the full extent in the prices of the lower counts because of internal competition?

Mr. Guha.—That is true.

President.—If that is true, that general argument holds good.

Mr. Guha.—We would agree to that. In the case of lower counts, there is very very keen competition.

President.—That is your experience?

Mr. Guha.—Yes.

President.—Up to what counts do you think there is very severe competition among the Indian mills?

Mr. Guha.—24s warp, 36s weft.

President.—Even there do you think there is very serious competition?

Mr. Guha.—Yes. For 30s warp Indian cotton is available. We could spin 27s or 30s out of selected Indian cotton, but generally we can only spin up to 24s warp.

President.—If you take 24s warp—36s weft, that is practically the limit up to which you can say that Indian competition would be very very keen.

Mr. Guha.—Yes.

President.—I would like to know what your view is regarding the period of protection.

Mr. Guha.—Shall I speak for Bengal or All-India?

President.—If you have two different views, let us have them both.

Mr. Guha.—In Bengal we have started the industry very recently. Kushtia Mill which I represent was started in 1927. So we want protection for a longer period. It is very difficult to have one period for one province and another for another province.

President.—If the question were going to be determined with reference entirely to the requirements of Bengal, what kind of period would you suggest?

Mr. Guha.—I have suggested 20 years.

President.—Supposing you are speaking as an Indian?

Mr. Guha.—I don't think that the period ought to be more than 10 years.

Mr. Biswas.—I think there are various factors which control the price. You may expect that Indian mills will be able to so manage their affairs that protection will not be required after 10 years. They will so reduce their price to the level that they may not be faced with competition.

President.—You definitely expect that?

Mr. Biswas.—Yes.

Mr. Biswas.—I am not talking of the perpetual duty, but I think as to-day in 1932 many factories have been started for which we are asking greater protection than what was wanted in 1930. Similarly other factories which are not known to us to-day may be started after 5 or 6 years which may need further protection.

President.—For that we can make provision in this way: we suggest that the period of protection for the time being should be limited to 10 years and at the end of that period if protection is to be continued or not, would be the subject matter of another enquiry with reference to the conditions which then prevail. So that would safeguard the industry.

Mr. Biswas.—Yes.

President.—I understand from your representation and from your replies that you are strongly opposed to the import duty on raw cotton?

Mr. Guha.—Yes.

President.—You are opposed to it in the interests of the handloom weaver?

Mr. Guha.—Yes.

President.—Because the point that you are making is that if imported raw cotton is made unduly expensive, then it would be necessary for the handloom weaver to use foreign yarn which will make his goods somewhat unsaleable in the market.

Mr. Guha.—Yes.

President.—It is necessary for us as a Board to look into this question also from the point of view of the cultivator. Have you examined the question from the point of view of the cultivator?

Mr. Guha.—That does not stand in the way. If the Indian mills find that there is a market for fine yarn, they will extend their mills and consume imported cotton. If they do that, the consumption of Indian cotton will not become less.

President.—There is a good deal of imported cotton coming into India which is of the same quality as the Indian long staple cotton.

Mr. Guha.—Yes when the parity is less. You are only speaking of American cotton.

President.—About 75 per cent. of the American cotton was imported into India last year.

Mr. Guha.—Because at that time it was economical for Indian mills to use American cotton instead of Indian cotton.

President.—Have you examined the periodic disturbances in price parity? Would you be surprised to hear that in the course of 10 years there were 3 disturbances?

Mr. Guha.—Two disturbances I know.

President.—1921, 1926 and 1930-31. In the course of 10 years you had 3 breaks in the price relation. If the break in the price relation occurs with that regularity and with frequency, don't you think we must provide a certain amount of insurance? It is an accident, but an accident that occurs, I think, regularly.

Mr. Guha.—That is only a temporary affair. If you do that, you kill the handloom industry.

President.—What I feel is this: supposing there is no incentive for the Indian cultivator of cotton to grow long staple cotton, then it looks to me that for a long time to come the Indian textile industry for all its long staple requirements would be depending upon imported cotton.

Mr. Guha.—Whether the cultivators take it up or not depend upon the question whether it is paying or not.

President.—As a matter of fact on that we have figures showing the amount of long staple cotton by which I mean not merely cotton which has a staple of more than $\frac{7}{8}''$ but cotton which has that staple and at the same time has the evenness and tensile strength required for higher counts, available in India in 1925-26 was about 350,000 bales. In 1931-32 it was over 800,000 bales. Now it has more than doubled. If that progress is maintained?

Mr. Guha.—Then the question is solved.

President.—That question will not be solved if there is going to be the kind of disturbance that has occurred during the past 5 or 10 years. The risk would be so great that a cultivator would think twice before he puts extra money for the sake of growing long staple cotton.

Mr. Guha.—It is not only long staple cotton which will be affected. If I get American cotton $1''$ staple at a rate which is lower than $\frac{7}{8}''$, then the mills will go in for American cotton.

President.—Representatives of cultivators' interests have represented to us in Bombay that it is very important that this duty should be retained and on the Bombay side they are much more familiar with the cultivation of cotton than you are here on this side and in view of the very strong representations which have been made to us, we feel it is a matter which we cannot ignore, because cotton as you know is really the commercial crop of the country and if there is any possibility of danger arising in respect of cultivators' interests, it is a matter of very great national importance.

Mr. Guha.—Cultivators' interests must be looked after first of all. Unless the parity is lower in the case of American cotton, there is no such danger.

President.—The Central Cotton Committee which I understand is the most authoritative body in this country with regard to the cultivation of cotton, have suggested that the duty should be retained, but made applicable only to cotton up to $1''$ staple. That is to say imported cotton of over $1''$ staple might be allowed free.

Mr. Guha.—Yes.

President.—Supposing a compromise on those lines were suggested, you would accept that?

Mr. Guha.—Yes.

President.—We take your position to be more or less the same as that of the Central Cotton Committee?

Mr. Guha.—Yes.

President.—In that case you feel that the kind of cotton required for the higher counts say 40s and above would not be affected by the duty on raw cotton. In that case your point of view is met.

Mr. Guha.—Yes.

President.—You are aware that the Bengal Hosiery Manufacturers Association have asked us protection for the hosiery industry. What is your view in regard to that?

Mr. Guha.—I have not studied the question, but from ordinary market reports I find that Japan is selling hosiery goods at a very low rate. The hosiery mills cannot compete with Japan. We are only manufacturing hosiery yarn. We don't make hosiery goods.

President.—How much do you make?

Mr. Guha.—Our production is about 600 lbs. a day.

President.—That is nearly 200,000 lbs. a year. That would correspond to very nearly 6 lakhs of dozens of vests?

Mr. Guha.—But we found it very difficult to sell because the hosiery millowners say that they cannot compete with Japan.

President.—What kind of counts?

Mr. Guha.—From 20s to 26s.

President.—How do you sell it?

Mr. Guha.—In cones.

President.—Does it cost you more to manufacture hosiery yarn?

Mr. Guha.—Hosiery yarn of 20s to 26s we make out of 40s.

President.—In order to get the softness?

Mr. Guha.—Yes.

President.—It is not merely a question of softness. Another reason why you use superior cotton corresponding to 40s is to get more tensile strength.

Mr. Guha.—Yes.

President.—So that the higher cost is due to the higher cost of cotton?

Mr. Guha.—Yes.

President.—But on the actual manufacturing charges do you save a little?

Mr. Guha.—The spinning cost would be slightly less in the case of hosiery yarn because the breakage would be slightly less, but we take great care in making hosiery yarn.

President.—In what way? It must be absolutely uniform?

Mr. Guha.—Yes.

President.—Therefore the output you get per spindle is less?

Mr. Guha.—Yes.

President.—So that practically the manufacturing and cotton costs are higher. That is what it amounts to?

Mr. Guha.—Yes.

President.—Can you tell me approximately, supposing you are making 24s ordinary yarn and 24s hosiery yarn, what is likely to be the difference per lb.?

Mr. Guha.—The difference is due to the mixing cost, say, of one anna.

President.—That is including the raw cotton?

Mr. Guha.—Yes.

President.—Altogether, it would be a difference of one anna per lb.?

Mr. Guha.—Yes, but we supply hosiery yarn in cones which cost 6 pies

President.—Then it will be one anna six pies?

Mr. Guha.—Yes, 1 anna for cotton and 6 pies for cones.

Mr. Boag.—Is that the difference in the price that you charge?

Mr. Guha.—The price depends upon the market.

Mr. Boag.—I suppose that the relation between the two articles is always maintained; that is to say, if the price of hosiery yarn goes down, the price of the other yarn also goes down?

Mr. Guha.—As regards hosiery yarn, there is a separate market.

Mr. Boag.—What is the price to-day?

Mr. Guha.—Hosiery yarn of 20s is 10 annas 6 pies per lb.

Mr. Boag.—And the other yarn?

Mr. Guha.—It is much less than that.

Mr. Boag.—What is the price?

Mr. Guha.—Rs. 5-6 for 10 lbs.

Mr. Boag.—That is about 8½ annas.

Mr. Guha.—Yes.

Mr. Boag.—As compared with 10½ annas for the hosiery yarn?

Mr. Guha.—Yes. Still we cannot sell our hosiery yarn.

President.—Assuming it is established that the hosiery industry is finding it difficult to meet foreign competition, then would you say that it is to the economic advantage, say, of your province that the industry should be given adequate protection?

Mr. Guha.—Yes.

President.—There is not any doubt about that?

Mr. Guha.—No.

President.—Considering the kind of occupation that it provides?

Mr. Guha.—Yes. The country ought to be made self sufficient.

President.—If the hosiery industry is protected and it is able to establish itself on a definite basis, then it provides for the whole of India a very considerable addition to the market for yarn produced by the textile industry?

Mr. Guha.—Yes. The hosiery manufacturers always demand Indian yarn.

President.—There are some of them who don't?

Mr. Guha.—We are talking of Bengal.

President.—I believe there are some large mills down south which supply hosiery yarn?

Mr. Guha.—Yes, the Madura Spinning Mills.

President.—How long have you been making hosiery yarn?

Mr. Guha.—Only for the last few months.

President.—What is the capacity of your mills—Dhakeswari Mills?

Mr. Guha.—22,000 spindles and 494 looms at present and 260 more will be coming.

President.—That is a very reasonable economic capacity?

Mr. Guha.—Yes.

President.—Are you doing double shift?

Mr. Guha.—Yes.

President.—The whole plant is working double shift?

Mr. Guha.—Yes.

President.—Your mills are at Dacca?

Mr. Guha.—Yes.

President.—How do wages compare with wages in Calcutta?

Mr. Guha.—Slightly lower.

President.—How much lower? About 10 per cent. lower?

Mr. Guha.—I cannot give you the exact figures off hand.

President.—Take the weaver's wages. If you take the weaver's wages in Dacca and the weaver's wages in Calcutta, would the difference be 10 per cent.?

Mr. Guha.—I shall send you the figures later.

President.—I have no idea how Calcutta wages and upcountry wages compare?

Mr. Guha.—Dacca is a very healthy place. Our labour is now untrained. When they are trained, they will be more efficient.

President.—How do climatic conditions compare?

Mr. Guha.—Very good.

President.—You have got enough humidity?

Mr. Guha.—There is too much of humidity sometimes—not always.

Mr. Boag.—Is your labour local?

Mr. Guha.—All local.

President.—Now I will come to your replies to the questionnaire. If you look at your answer to Question 1 (iv), you say "gradually having regard to the diminishing purchasing power of the consumers, they have brought down this figure to one now but with the revival of the economic condition of the country they hope to go back again to finer side". That rather contradicts the statement that you make later that area for area the finer cloth is cheaper.

Mr. Guha.—We have said that, but you must take into consideration the quality.

President.—Within what limits do you think that area for area the finer cloth is cheaper?

Mr. Guha.—If the cloth is 60s × 80s, it cannot be cheaper than 20s × 40s.

President.—It would be cheaper than what?

Mr. Guha.—It may be cheaper than 30s × 40s.

President.—Within a margin of 30 counts?

Mr. Guha.—I have not got the actual statistics on the point, but that is my idea.

President.—I do not know if you have seen Mr. Hardy's report. On page 85 of his report you will find that for 38/38, the price per unit area is 42*d*. whereas for 70/110, it is 41½*d*. The latter appears to be cheaper on that basis?

Mr. Guha.—I do not know how he came to that conclusion.

President.—Don't you think that it is an extraordinary statement?

Mr. Guha.—I don't think that it is correct.

President.—I am glad you don't think it is correct. You have a sufficiently long acquaintance with piece-goods?

Mr. Guha.—Not much.

President.—About 20 years?

Mr. Guha.—Not in the Dhakeswari mill.

President.—Off and on you have been connected with the industry?

Mr. Guha.—Yes.

President.—From your experience of about 20 years, you can say that the statement of the kind employed in that table is not correct?

Mr. Guha.—It is not correct.

President.—If you look at your reply to Question 1 (vi), your point is that in view of the exceptional low prices at which Japanese goods are now being sold as a result of exchange depreciation, the swadeshi movement is not strong enough to resist the temptation offered by such very low prices. Is that your point?

Mr. Guha.—Yes.

President.—Up to a point you can depend upon swadeshi movement, but when prices are exceptionally low, the movement is not strong enough to force the consumer not to buy foreign goods.

Mr. Guha.—Especially the poorer classes. You ought to take that consideration into account. They cannot afford it.

Mr. Biswas.—Prices have gone down very low. That is the reason why people buy those goods.

President.—If you look at your reply to Question 1 (x), " it cannot be admitted " you say " that it is impossible to manufacture that class of goods ". We have been told by certain Associations that there are certain classes of goods now manufactured in Lancashire which would be impossible to make in India for reasons partly of climate and partly of the standard of skilled labour. What is your view?

Mr. Guha.—That was so sometime ago. It is not true to-day.

President.—What is the kind of consideration that arises from these two points? Let us first take the climatic condition.

Mr. Guha.—That means humidity.

President.—That applies particularly to finer counts. Does that apply more to finer counts?

Mr. Guha.—Yes. If there is no humidity, it can be regulated.

President.—With the help of humidifiers?

Mr. Guha.—Yes. You can put in as much humidity as you like. When you can do that, the climatic condition cannot stand in the way.

President.—What about the skilled labour?

Mr. Guha.—Sometime ago Bombay and Ahmedabad did not have sufficient skilled labour.

President.—What are the kinds of cloth in which very skilled labour is essential?

Mr. Guha.—Generally in higher counts.

President.—When you go up to 80s?

Mr. Guha.—Over 80s. We are handling up to 60s.

President.—You find that there is no difficulty?

Mr. Guha.—No.

President.—Are you able to make 60s more or less of the same quality as the imported goods?

Mr. Guha.—We have not got combing appliances. If we have got those appliances, we can make them as good as Manchester.

President.—Where does the question of skilled labour come in?

Mr. Guha.—They will be more attentive.

President.—What does that result in?

Mr. Guha.—Supposing there is a breakage they generally mend it. If the machinery is not quite all right, in the case of coarse counts, certain irregularities can pass but in the case of finer counts they cannot pass. As soon as the cloth is made, they will be seen.

President.—The general coarseness of the coarse counts covers a multitude of sins but the cloth made of finer counts is much too naked and the eye detects it straightaway.

Mr. Guha.—That is the point.

President.—Are you able to make a statement on this point? Knowing Indian labour as you do, within how many years do you think that an Indian labourer will be expected to acquire the necessary degree of skill?

Mr. Guha.—In our mill, in another ten years' time, our Indian labour will acquire the same skill and efficiency.

Mr. Boag.—Up to what counts?

Mr. Guha.—80s and 100s.

President.—How do these Indian and imported goods compare?

Mr. Guha.—Some of the Calico Mill goods are as good as imported goods made in Lancashire.

President.—If a textile mill works for about 10 or 15 years at the production of higher counts, the labour at the end of that would be as efficient as Lancashire skilled labour?

Mr. Guha.—Yes, I expect that.

President.—If you look at page 3, you refer there to the case of a particular sort of dhoti?

Mr. Guha.—Yes.

President.—How long ago did this case occur?

Mr. Guha.—Two years ago.

President.—What kind of dhoti was this?

Mr. Guha.—Fine dhoti.

President.—What counts?

Mr. Guha.—I believe it was 40s × 60s. It may be slightly higher than that.

President.—A certain Bombay mill produced this dhoti and put it on the Calcutta market at Rs. 1-13-6 and the result was that practically every mill in Calcutta had to bring down its price? Had there been other cases of that kind?

Mr. Guha.—That was very noticeable. There was another case like that where the manufacturing cost was no less than Rs. 2-10.

President.—In that particular case the consignment was specially a large consignment?

Mr. Guha.—Yes.

President.—It came into the Calcutta market?

Mr. Guha.—Yes. There was another case like that. When the manufacturing cost was Rs. 1-10 one consignment was sold at Rs. 1-8.

President.—On page 4, the steamer freights that you give from Japanese ports to Calcutta, what kind of ton is this? Is it cubic ton?

Mr. Guha.—Yes. The figures have been supplied by another mill. I got some figures yesterday regarding the freight on cotton in which I thought you would be interested.

President.—From which place?

Mr. Guha.—One from Mombasa and some figures from different ports in India to Calcutta.

President.—You might put in that statement?

Mr. Guha.—Yes.

Mr. Biswas.—There is one very interesting point. From Mombasa to Bombay it is 16 shillings = Rs. 10-6; from Bombay to Calcutta it is Rs. 14, and from Calcutta to Dacca it is Rs. 17-12.

President.—We hear of these cases in every enquiry.

Mr. Guha.—From Calcutta to our mills is only 300 miles and we pay Rs. 17-12.

President.—You are going to send us cost statements: we shall be very glad to have them.

Mr. Guha.—We generally calculate the costs per spindle and per loom.

President.—We should like to have that too. We can wait for about a fortnight.

Mr. Guha.—We will send you the statements within a fortnight.

President.—We want you to give us the costs statement in respect of each of these classes of cloth. Give us first in the form we have suggested and then give per spindle and per loom on these particular classes of counts.

Mr. Guha.—Yes, but we hope this will be treated as confidential.

President.—Neither the name of the mill nor any of the figures will be made public.

Mr. Boag.—You mention mill "A" and mill "B". Where are these two mills? One you say is at Dacca.

Mr. Guha.—And the other is at Kushtia.

President.—You have made some very interesting observations about the managing agency systom.

Mr. Guha.—That is my personal view.

President.—I should like to have your views explained fully. It begins at page 11. How many mills are there in Bengal which are managed under the system of Managing Directors?

Mr. Guha.—Only one.

President.—What precisely is the system there? Is there one Managing Director?

Mr. Guha.—There are three.

President.—How are the functions divided between these managing directors?

Mr. Guha.—In important matters we always meet, but one of us looks after the sales, one looks after technical affairs and one looks after general supervision.

President.—Are there other directors besides the managing directors?

Mr. Guha.—There are. There are 13 directors of which three are managing directors.

President.—And each of the managing directors is paid an allowance of Rs. 3,000?

Mr. Guha.—No. Between the three we get Rs. 1,000.

President.—And they are allowed also 5 per cent. on the net profits. Do you calculate it on the net profit or do you calculate it on the depreciation?

Mr. Guha.—On the actual net profit.

President.—After meeting works cost, overhead, depreciation and interest?

Mr. Guha.—Yes.

President.—Have you had any difficulties with regard to the financing of your mill under that system?

Mr. Guha.—We had some difficulty but we have no difficulty now.

President.—Can you tell me generally what sort of difficulty you had?

Mr. Guha.—We had no difficulty in raising share capital.

President.—You issued your prospectus in 1927?

Mr. Guha.—The mill was started in 1927 but the Company was formed in 1922. Between 1922 and 1927 the share capital was raised and the mill erected.

President.—You were able to get practically all the share capital that you wanted: where was the difficulty then?

Mr. Guha.—Practically the whole of our share capital was in block and there was some difficulty about the working capital.

President.—Was it difficulty in making necessary arrangements with banks?

Mr. Guha.—We have had no facility from banks; they did not advance money on the block account; they were prepared to advance money on cloth and cotton.

President.—Provided you gave two signatures?

Mr. Guha.—Yes.

President.—This was a condition that you found rather difficult to meet?

Mr. Guha.—Yes, so we borrowed from private parties.

President.—Are the rates of interest very high?

Mr. Guha.—7½ per cent.

President.—I suppose the difficulty with regard to working finance is two-fold, first the difficulty of finding money and in the second place the higher rate of interest.

Mr. Guha.—Yes.

President.—Have you got over the difficulty with regard to working finance?

Mr. Guha.—Yes, because we have practically paid off the loan.

President.—That is to say, the working funds which are with you in the mill—depreciation fund, reserve fund which are lying with the company—that would help you to finance your operations?

Mr. Guha.—Yes.

President.—If you want to get your working finance apart from depreciation or reserve fund available with you, would you again have to go to private parties?

Mr. Guha.—Not now: we have got our finished product.

President.—In the case of a company under a managing director supposing you wanted to borrow money from a bank and had to provide a second signature would your Company be in a position to do it?

Mr. Guha.—It would be very difficult.

President.—Of the three managing directors that you have how many of them are technically trained?

Mr. Guha.—One.

President.—He is, I suppose, in charge of the machinery and the technical side of the business: the others have administrative and general commercial experience?

Mr. Guha.—Yes.

President.—Do you think it is likely that this new tendency of managing companies with managing directors will develop in Bengal?

Mr. Guha.—The shareholders like it.

President.—Look at page 12 of your note: you say "For quick development management by managing agents is undoubtedly the better". Your point there is that in respect of finances and in respect of economies which managing agents are able to secure by pooling arrangements, management by managing agents is better. In these two respects the managing agency system helps quick development of the industry?

Mr. Guha.—That is my point.

President.—What you mean by pooling arrangement is, supposing a managing agent manages three or four or five mills, he is able to purchase his materials for all these five mills in bulk?

Mr. Guha.—He would buy in lots and will have better control.

President.—All that kind of thing would make for a certain amount of economy?

Mr. Guha.—Yes. The only thing against the managing agent is that he becomes inefficient because it goes from father to son.

President.—Is it because the sons do not maintain the efficiency of the father or is it because the shareholders do not maintain sufficient control over the managing agent?

Mr. Guha.—There should be some system of introducing new blood. Shareholders ought to be alert when managing agents get inefficient and there should be provision in the Companies Act which will enable shareholders to force managing agents to take new partners.

President.—That is impossible under the present system partly because the period of agreement between the managing agent and the company is much too long.

Mr. Guha.—Yes; that is why I suggest that the Companies Act should be amended. I think that can be recommended by the Tariff Board.

President.—What kind of period would you consider reasonable? Supposing I am starting a company and I am entering into an agreement with a managing agency firm, what do you think would be the reasonable initial period to be fixed for appointing a managing agent?

Mr. Guha.—He ought to have a permanent interest in the company, but if the shareholders find that he is getting inefficient then he should be replaced.

President.—In Ahmedabad I find that all the agreements provide for a permanent and non-changeable tenure.

Mr. Guha.—That is necessary.

President.—If you allow that then you cannot control it.

Mr. Guha.—You will allow that and at the same time there should be provision to control it.

President.—Supposing a managing agent is a particularly refractory individual and if it is found that he is steadily degenerating and it is necessary to set him right, you have no means of removing him.

Mr. Guha.—If they do anything which is injurious to the interests of the Company there should be provision made under the Companies Act to remove him.

President.—You would suggest that the managing agent should be given a fairly long interest subject to the proviso that if there is gross negligence, subject to a finding in a court of law...........

Mr. Guha.—Negligence and inefficiency.

President.—Inefficiency is a thing which cannot be tested in a court of law.

Mr. Guha.—It may be made compulsory that a managing agent of a mill must have sufficient stake in the mill, at least 25 per cent.

President.—Sufficient holding of share capital; in that case he would be really interested in the company?

Mr. Guha.—Yes.

President.—I am gald you mention this point. It is an advantage to the company that the managing agent should have say about 25 per cent. holding of share capital. While that is of advantage do you think it is likely to be a disadvantage if it is too much?

Mr. Guha.—It has actually occurred.

President.—If it is 75 per cent.?

Mr. Guha.—It will be injurious to the other shareholders.

President.—People who hold 25 per cent. will be left completely at the mercy of the managing agent, but of course you can depend on him, if the managing agent holds 75 per cent., that he would be interested in the whole business and in making profits.

Mr. Guha.—The safeguard must be in the beginning. They must not be allowed to draw money as extra gain simply because they hold a large number of shares. If the conditions of their remunerations and other things are normal probably it will be more to the benefit of the company if the managing agents have the largest amount of shares.

President.—Supposing a case occurred where the son succeeds the father and has not inherited the abilities of the father or his habits of work and it is found that he has not only inherited the father's position but also the father's interest in the share capital to the extent of 75 per cent. of the share capital, if he is not intrinsically an able man and a careful man then the fact that he holds 75 per cent. of the share capital is no guarantee that

he will promote the interest of the company, on the other hand that 75 per cent. prevents the rest of the shareholders from exercising any control over him.

Mr. Guha.—That is the danger there; he might ruin the business. There are loopholes for the managing agents to do something by virtue of the agreement which may be very profitable to them or by the terms of that agreement they are not bound to do much for the company. If the terms are so loose then the managing agents can do many things which are not in the interest of the company. As regards remuneration there are parties who want to have a very large share for themselves but with regard to other things about the management and about the powers I do not think they are unreasonable.

President.—The next point you make here is with regard to the system of managing directors. You say "The latter system again is not free from defects as it leads to routine work and there is always a lack of initiative in the system". What precisely is your point?

Mr. Guha.—They have no personal interest; they have no stake in the company; moreover they are too much under the control of the directors.

President.—They sink into the position of mere subordinates and therefore do not show any initiative?

Mr. Guha.—I don't say about any other mill. I am speaking of our own mill. We started the company; we take pride in it and we take some initiative and responsibility. But the next man who will come may not take the same amount of interest.

President.—If your managing director is a man who has a position on the Board of Directors and in status he is equal to the rest of the Board then do you think there is very much danger of his degenerating into the position of a petty subordinate?

Mr. Guha.—There is possibility of his degenerating.

President.—Have you any experience of any Company working under a Managing Director apart from this particular Company that you are talking about? Are there other Companies in Bengal or other industries? Can you think of any big industrial concern in Bengal which is working under a Managing Director and not under a Managing Agent?

Mr. Guha.—Bengal Pharmaceutical Works is managed by a Managing Director.

President.—You mean Sir P. C. Ray's?

Mr. Guha.—Yes.

President.—You sum up your point by saying that the system of management by Managing Agents is preferable provided suitable modifications are made in the system and I take it your point is that these modifications must be in the direction of securing better control over the Managing Agent.

Mr. Guha.—Yes.

President.—It is really sufficient control on the part first of the Directors and secondly of the promoters to enable the Managing Agency to be maintained up to a reasonable standard of efficiency.

Mr. Guha.—Yes.

President.—Do you object to Managing Agents being purchasing Agents?

Mr. Guha.—They must not be purchasing Agents. They are getting commission. Why should they be purchasing and selling agents?

President.—Supposing your Managing Agent has got 4 or 5 mills and the Managing Agent buys for all the 5 mills, you don't mind his purchasing, but ought to purchase without commission.

Mr. Guha.—He will purchase and sell, but he should not take any commission.

President.—The same applies to insurance.

Mr. Guha.—Yes. He is getting his commission as Managing Agent.

President.—Supposing he is an insurance Agent and there is so much competition among insurance companies, what do you think he should do with the rebates that he gets?

Mr. Guha.—He must give it to the Company. There is no question about that. We get rebates which we pay to the company.

President.—In the next paragraph you talk about middlemen in regard to sales.

Mr. Guha.—Yes.

President.—How many links are there between the manufacturer and the consumer?

Mr. Guha.—Mills have their selling agent who gets commission. Then the selling agent sells to marwaris and the marwaris sell to chalaniwalas. Chalaniwalas sell to small dealers.

President.—Between the manufacturer and the consumer there are 4 links.

Mr. Guha.—Yes.

President.—As the result of the contributions by these 4 people, by how much the price is raised at the retail end?

Mr. Guha.—That depends on the commission.

President.—Supposing we allowed one per cent. in each case, would that be reasonable? It will be increased at the retail end by 4 to 5 per cent. If you take the price *ex*-mill?

Mr. Guha.—12 annas per cent. for the agent.

President.—That is ¾ per cent. for the agent?

Mr. Biswas.—Yes.

President.—And the others would be less, I should think.

Mr. Biswas.—One pice per rupee for the dealer and a smaller amount for the third man.

President.—If the price *ex*-mill is 100, I take it after all these commissions the consumer will get it at 105.

Mr. Guha.—Yes.

Mr. Biswas.—They sometimes undersell.

President.—If he is allowed one per cent. commission, he gives half of it to the consumer on account of the competition.

Mr. Biswas.—Last year most of the people have undersold.

President.—They can only undersell to the extent to which he is given commission.

Mr. Guha.—They incur loss. Suppose, there are 40 kinds of cloth. They incur loss with respect to 20 kinds of cloth and make a profit on other kinds.

President.—You say particular Bengal mills have tried a new system. What happens? Is it direct contact with the consumer?

Mr. Guha.—It is still in an experimental stage. It is only since 9 months we have started this system. We fix our price and we enter into small contracts of 10 or 15 bales a month with the mufassal dealers and they should sell at the price at which we fix.

President.—That is to say the mill fixes the price and a certain discount is allowed to the dealer so that he has got to sell at that price.

Mr. Guha.—Yes.

President.—That is the way in which motor cars are sold.

Mr. Biswas.—What they do at Dacca is not possible in Calcutta.

President.—Why not?

Mr. Biswas.—They can sell their goods to mufassal agents. People who sell direct to the consumers have some agents. They can sell direct to their agents however small the quantity may be, but most of the mills have to sell

their goods on forward contracts to the dealers. They can't get the services of these dealers.

President.—In Calcutta you have to sell in bulk and sell forward. You can't work independently of the big dealers?

Mr. Biswas.—That is the difficulty. Two things cannot go on together. The millowners are expected to sell their goods to the dealers on forward contracts. I don't think the dealers would agree to the mills selling direct to the consumer.

President.—They would not. You can't do it both ways.

Mr. Biswas.—No.

Mr. Rahimtoola.—You represent here the Bengal National Chamber of Commerce?

Mr. Guha.—Yes.

Mr. Rahimtoola.—What is the membership of your Association?

Mr. Biswas.—About 300 members.

Mr. Rahimtoola.—What is the object of the Association?

Mr. Biswas.—To look after the interests of the Indian commercial community particularly of Bengal, having due regard to the interests of the consumers also.

Mr. Rahimtoola.—I am asking you this question, because there is another Chamber in existence which appeared before us yesterday.

Mr. Biswas.—That is the Indian Chamber of Commerce.

Mr. Rahimtoola.—I want to know whether the objects of the two Chambers are identically the same. Is there also a question of overlapping? A member may belong to both the Chambers?

Mr. Guha.—Yes. We are now members of the Bengal National Chamber of Commerce. We could be members of the Indian Chamber of Commerce.

Mr. Rahimtoola.—There are two Chambers in existence in Calcutta where the objects are identically the same and shall we say about 20 to 25 per cent. of the members are the same?

Mr. Biswas.—10 per cent. of the members are the same. Bengal National Chamber of Commerce is mainly composed of Bengalee businessmen. Members of the Indian Chamber of Commerce were formerly members of the Bengal National Chamber of Commerce. Six years back they have formed a separate Chamber.

Mr. Rahimtoola.—I want to know whether the Bengal commercial interest is distinctly separate from the Indian Chamber's interest.

Mr. Biswas.—Still there are some provincial questions. The feeling is that Bengal's interests are not so closely identified with the interests of other provinces.

Mr. Rahimtoola.—All are residents of Calcutta?

Mr. Biswas.—Not of Calcutta, but of Bengal.

Mr. Rahimtoola.—I don't quite follow.

Mr. Biswas.—When the question of protective duty on salt was raised, you are perhaps aware there was a question of provincial interest as between Bengal and other provinces. In that question particularly the Bengal National Chamber of Commerce took up a particular attitude different from the Indian Chamber of Commerce.

Mr. Rahimtoola.—The word "provincial" means Bengal Presidency. All the people who are connected with the Chamber belong to the Presidency as a whole. It is difficult to understand how outside influence could prevail in the Chamber.

Mr. Biswas.—Their principal place of business is outside Bengal, but they have got offices here. Take, for instance, the Central Bank of India and the Steam Navigation Company.

Mr. Rahimtoola.—In that way do you think there is a predominant membership in the Indian Chamber which is not directly attending to the interests of the Presidency as a whole?

Mr. Biswas.—I don't say that. But there may be some occasions when the interests of Bengal and other provinces might clash and on those occasions they will be naturally inclined to take up an attitude which will not be of advantage to Bengal.

Mr. Rahimtoola.—As far as this industry is concerned, I find the mill which you represent has supported the representation sent to us by the Indian Chamber of Commerce. I particularly put that point yesterday to their representatives and they told me that your mill particularly was one of those parties which were responsible for even drafting the memorandum and tho replies to the questionnaire which were sent to us mentions your name. Your mill is Dhakeswari, Dacca. As far as their replies to us are concerned they definitely said that the system which they adopted was that they appointed a small sub-committee in which all the mills were represented and these mills authorised the Indian Chamber of Commerce, Calcutta, to speak on their behalf.

Mr. Guha.—I do not know anything about it.

Mr. Rahimtoola.—You think then as far as you are aware that statement is not correct.

Mr. Guha.—They wrote to us. In reply I wrote to them sometime ago that as we were far away from Calcutta, it would be better if they got the reply drawn up by a mill in Calcutta.

President.—In regard to the substance of your proposal regarding protection there is very little difference between your point of view and theirs.

Mr. Biswas.—Except with regard to the question of duty on raw cotton. If I may say so, Bengal National Chamber of Commerce, though representative of commercial interests, have a traditional bias to the consumers and so far as Bengal is concerned, cotton is not cultivated much in Bengal and there we thought that we would serve better if we opposed the imposition of duty on raw cotton.

Mr. Rahimtoola.—I should like to take that point as you have mentioned it so prominently. You have raised, I must say, quite a new point as far as the Board is concerned that you are opposing the duty on raw cotton on the ground of the handloom industry.

Mr. Guha.—Yes.

Mr. Rahimtoola.—And your point of view is that the moment the consumer discovers that the handloom cloth is composed of foreign yarn, it is in itself a sufficient ground for the consumer not to purchase it irrespective of the price.

Mr. Guha.—Yes.

Mr. Rahimtoola.—And it is entirely due to the swadeshi feeling that is existing in this country.

Mr. Guha.—That is so.

Mr. Rahimtoola.—Whilst saying this you maintain that it is advisable for this reason that India should import a large amount of foreign cotton in order that the handloom industry may be in a position to get sufficient yarn for their requirements especially in fine counts.

Mr. Biswas.—Spun by Indian mills.

Mr. Rahimtoola.—I do not know whether the Congress or the Swadeshi movement only confines itself to the question of foreign yarn. To my mind it is a fight between foreign cotton and foreign yarn. If it is a question of foreign thing altogether which the swadeshi movement is opposing, I do not understand how foreign cotton can be said to be an indigenous article.

Mr. Guha.—In that sense even in England and America they have got to import raw cotton.

Mr. Rahimtoola.—That is not the point.

Mr. Guha.—Take for example Uganda. It may be a foreign cotton.

Mr. Rahimtoola.—Indian in the sense that the cotton tracts belong to Indians who have settled down there.

Mr. Guha.—Yes. They handle the whole thing.

Mr. Rahimtoola.—What about the Egyptian cotton?

Mr. Guha.—We mostly buy Uganda cotton.

Mr. Rahimtoola.—You have given us figures which are found on page 7 of your representation. You say that as much as 146,000 bales in 1930-31 were Egyptian.

Mr. Guha.—From an economic point of view there should not be any restriction in importing raw materials for the industry. That will help the growth of the industry.

Mr. Rahimtoola.—As far as handloom industry is concerned, yarn is a raw material.

Mr. Guha.—Indian mills will supply the yarn.

Mr. Rahimtoola.—That is their raw material. They want fine yarn for the manufacture of goods. Both are raw materials to both the industries.

Mr. Guha.—In the sense they are required for the industry. Yarn cannot be said to be a raw material. That is a manufactured article.

Mr. Rahimtoola.—It is a raw material to them, because they don't use cotton.

Mr. Biswas.—It is semi-finished. It is not absolutely raw. If we can manufacture yarn here, why should we not use that.

Mr. Rahimtoola.—I take it that the swadeshi movement is only confined to the question of yarn and not cotton.

Mr. Biswas.—Yes.

Mr. Rahimtoola.—As the swadeshi feeling is there, you are asking us that this duty should be eliminated in order that India may be self-sufficient in producing yarn which is at present utilised by the handloom industry in India.

Mr. Guha.—Yes. There is also another aspect of the case. The Congress, we think, is against the drainage of Indian wealth. If they purchase foreign yarn, they pay something to the spinners of foreign countries; whereas if we import raw cotton and supply the yarn, that money is retained in the country.

Mr. Rahimtoola.—That is the second consideration.

Mr. Guha.—Between the two they will prefer to purchase cotton and we of course do not know whether the Congress has ever objected to India importing cotton. Of course, India has a large amount of raw material, but it is not proved that India is not to get any raw material from outside.

Mr. Rahimtoola.—As regards your reply to Question 1 (ix) you say that all the new mills that are now being started are designed for finer counts. How many new mills have been started?

Mr. Guha.—Ours which is not altogether a new mill and Kushtia which is also not a new mill are contemplating additions for spinning fine counts. Of the new mills that have been floated and have not started yet, almost all of them intend to go in for fine counts.

Mr. Rahimtoola.—This is I take it from 1927?

Mr. Guha.—We started in 1927. Since then several Companies have been floated, but they have not started yet.

Mr. Rahimtoola.—They have issued their prospectuses. They may have placed orders for machinery.

Mr. Guha.—15 or 16 days ago a mill has been started. They are not spinning at present, but they are contemplating to do it. All the Companies that have been floated are thinking of going in for finer counts.

Mr. Rahimtoola.—Is it due to the recommendation of the Tariff Board in 1927 or is it due to the argument which you have stated here?

Mr. Guha.—New Companies did not know that. People ought to have read the Tariff Board's report which drew the attention of the Indian mill industry that they must go in for finer counts. We find as millowners that there is a better demand for finer counts than for coarser counts.

Mr. Rahimtoola.—That means you are also taking into consideration the changed taste of the consumer as pointed out by you. That is also one of the reasons. The public are at present going in for finer counts and you are having machinery installed to suit that requirement.

Mr. Guha.—Yes.

Mr. Rahimtoola.—I understand that your mills are not using artificial silk yarn.

Mr. Guha.—No.

Mr. Rahimtoola.—But they are using silk yarn?

Mr. Guha.—No.

Mr. Rahimtoola.—What about the borders in dhotis and saris?

Mr. Guha.—We use coloured borders.

Mr. Rahimtoola.—What is the reason for asking protection to the Indian silk industry?

Mr. Guha.—We had a very big silk industry in Bengal. It is dying out. That is the reason.

Mr. Rahimtoola.—You mean the Indian silk industry.

Mr. Guha.—I mean the cottage industry.

Mr. Rahimtoola.—I must draw your attention to this. If it has no connection whatsoever with the textile industry, then it is a proposition which the Tariff Board cannot look into. At present we are looking into the Indian textile industry and if you want protection to the Indian silk industry, it is to the Government of India in the Commerce Department that you must approach. I am only drawing your attention to the fact that this is a subject which cannot be dealt with at present. Unless it is some question connected with the Indian textile industry, it is not possible. That is why I have asked you whether you are utilising a certain amount of silk in the borders of dhoties and saris that you are manufacturing.

In reply to Question 3, you say that the competition is due to the increase of mixing costs. I should like to understand what exactly it means. You say "This can be demonstrated by the fact that, with the increase of mixing costs there have not been corresponding rises in the prices of cloth".

Mr. Guha.—Increase of mixing costs means practically a rise in the price of cotton. When there is a rise in the price of cotton and when there is no corresponding rise in the price of dhotis, it means that there is great competition amongst mills. Recently there has been a rise in the price of cotton of Rs. 80 per candy, there has not been any increase in the price of finished goods. There has been a rise of one anna for a week and again it has come down.

President.—If you compare the price of Japanese cotton goods and the price of cotton, then you will find that it may not be the result of internal competition but may be the result of external competition.

Mr. Rahimtoola.—You have stated in reply to Question 6 that the mills in Bengal have started working double shift to meet the increased demand, but you say that they are not working at a profit. It means when the mills are working double shift that they are selling their goods at remunerative rates?

Mr. Guha.—No profit.

Mr. Rahimtoola.—In spite of the increased demand which makes the Indian mills work double shift?

Mr. Guha.—If we want to restrict the imports from other countries then we must meet the demand; we must supply the people with cloth.

Mr. Rahimtoola.—It means that mills are running on patriotic lines?

Mr. Guha.—Somewhat.

Mr. Rahimtoola.—They are going on supplying in spite of the fact that they are not making any profit and working double shift in addition merely with the object of shutting out foreign competition.

Mr. Guha.—If a mill were to work a single shift, it might incur a loss. By running two shifts, we have not made any loss.

President.—To the extent that prices will cover your costs. If you don't do double shift, I expect that your costs would exceed your prices?

Mr. Guha.—Yes.

Mr. Rahimtoola.—Even working donble shift, you have made no profit?

Mr. Guha.—In 1931 we made no profit.

Mr. Rahimtoola.—I take it that you are confining your remarks to your mills?

Mr. Guha.—Bombay also is not doing well.

Mr. Rahimtoola.—You are making a general statement?

Mr. Guha.—Yes. None of the mills is doing well—practically very little profit in 1931. If they did not run double shift they would have incurred a loss.

Mr. Rahimtoola.—There is an interesting point which you have raised in your reply to Question 9. You say that the total requirements of Bengal were supplied by the handloom industry before Lancashire came into the field and then the handloom industry in order to avoid competition tried to manufacture goods which could not be made by the mills. What is the kind of competition now? Can they not confine themselves to goods which the Indian mills cannot manufacture?

Mr. Guha.—People won't buy it. In manufacturing those goods you must have fine yarn. You cannot give any artistic finish unless you have fine yarn.

Mr. Rahimtoola.—Some of the mills are producing fine yarn, even 120s?

Mr. Guha.—Handloom weavers cannot get it.

Mr. Rahimtoola.—Those mills are marketing their yarn?

Mr. Guha.—Only a very small quantity.

Mr. Rahimtoola.—In fairly large quantities. There is one mill which is entirely devoting its attention to fine yarn?

Mr. Guha.—In this part of the country we cannot get fine yarn.

Mr. Rahimtoola.—When they turned to the artistic side, Lancashire competition was keen, and there was no Indian mill competition as such. What was the position of handloom weavers?

Mr. Guha.—They are not doing well even now near about Calcutta. There is a big handloom industry in Calcutta and also in Dacca. Since the swadeshi movement, they have to give it up. People won't buy the handloom products because they are made of foreign yarn.

Mr. Rahimtoola.—According to you the condition in which the handloom industry finds itself at present is entirely due to the swadeshi feeling in the country, namely that they are using foreign yarn, and to that extent their products are unsaleable, no matter what the price is.

Mr. Guha.—Quite.

Mr. Rahimtoola.—You are recommending on page 6 of your replies to the questionnaire that India should adopt extensive and well planned schemes of irrigation like Egypt. Can you give me any idea about Egypt if you know anything?

Mr. Guha.—We refer to irrigation schemes like Sukkur Barrage.

Mr. Rahimtoola.—You are not talking of any experience or knowledge which you may have derived when you are referring to Egypt. I suppose it is only an assumption?

Mr. Guha.—Yes, a general assumption.

Mr. Rahimtoola.—Are you aware of the working of the Central Cotton Committee?

Mr. Guha.—Not much. I am a member of the Provincial Cotton Committee. But up till now, the Committee has not met.

Mr. Rahimtoola.—You are talking there of a matter which is primarily the concern of the Indian Central Cotton Committee.

Mr. Guha.—Has it any bearing on the present question?

Mr. Rahimtoola.—You are asking India to concentrate on long staple cotton and I therefore ask you whether you are aware of the work done by the Central Cotton Committee?

Mr. Biswas.—No.

Mr. Guha.—Protection may encourage the agriculturist to produce long staple cotton here.

Mr. Rahimtoola.—You mean the protection to the textile industry?

Mr. Guha.—Yes.

Mr. Rahimtoola.—I suppose you have to a certain extent modified the argument which is advanced on page 7 of your replies about the question of Indian cultivator. You say that the abolition of the import duty on raw cotton will not affect prejudicially the interests of the Indian cultivator. I suppose you have modified your views to the extent suggested by the Chairman?

Mr. Guha.—Yes.

Mr. Rahimtoola.—As regards the table given on top of page 8 in reply to question 15, you have reduced your rent, rates and taxes from Rs. 2,337-6-6 in 1928 to Rs. 342-11-6 in 1932?

Mr. Guha.—That is because we got some. We deduct that from what we pay.

Mr. Rahimtoola.—You don't house your labour free?

Mr. Guha.—We charge a nominal rent.

Mr. Rahimtoola.—It is not nominal. It is nearly Rs. 2,000.

Mr. Guha.—We charge Rs. 1-8 or Rs. 2 per room. Besides that we have a bazar from which we derive a good income.

Mr. Rahimtoola.—That is, you provide foodstuffs?

Mr. Guha.—We only supply the land.

Mr. Rahimtoola.—Within your mill area?

Mr. Guha.—We get rent from people who market their goods there.

Mr. Rahimtoola.—What sort of amenities do you provide for your labour?

Mr. Guha.—We have a school; we have a reading room.

Mr. Rahimtoola.—You have not provided any amenities?

Mr. Guha.—We have provided a school.

Mr. Rahimtoola.—For how many?

Mr. Guha.—35.

Mr. Rahimtoola.—When did you start that school?

Mr. Guha.—Two years ago.

Mr. Ashutosh Guha.—The other mills do not take any rent from their labour.

Mr. Rahimtoola.—You represent nearly 4 to 5 mills?

Mr. Ashutosh Guha.—Yes.

Mr. Rahimtoola.—Is your experience the same?

Mr. Ashutosh Guha.—Except Dhakeswari Mills, the other mills do not charge rent from their labour.

Mr. Rahimtoola.—They house their labour free?

Mr. Ashutosh Guha.—Yes. They have provided other things for the benefit of labour, hospital, maternity home and other things.

Mr. Guha.—Our quarters are very fine. They cannot be compared with any other. We have made our quarters to suit educated young men. We have 200 matriculates as part of our labour.

Mr. Ashutosh Guha.—Many matriculates are now-a-days coming in.

President.—I hope they are not very unsatisfactory!

Mr. Rahimtoola.—In the last paragraph you have complained that there is another factor which is working as a handicap to the industry. Taking advantage of the present swadeshi feeling, foreign goods are coming into Calcutta marked in such a way as if they are Indian mill made goods. We have heard about this complaint. My point is this. It is only as regards the price that you can consider it a handicap?

Mr. Guha.—They are placed before the consumer as if they are made in India.

Mr. Rahimtoola.—It is a false representation?

Mr. Guha.—Yes.

Mr. Rahimtoola.—You know that it is within the law to sell goods without having the mark of the origin of the country as the law stands at present?

Mr. Guha.—They have taken advantage of that.

Mr. Rahimtoola.—At present they are not infringing any law?

Mr. Guha.—If they infringe the law, they will be hauled up before a Court.

Mr. Rahimtoola.—Your objection can either be on the ground of false representation or on the ground of price. As far as Lancashire goods are concerned, you are aware that they are made of fine counts.

Mr. Guha.—In medium counts, there is competition with Lancashire.

President.—Is there very much competition in medium counts? By medium counts you mean 30s and 40s?

Mr. Guha.—Yes.

President.—There is very little. It is mostly Japanese.

Mr. Guha.—There is competition from Lancashire.

Mr. Rahimtoola.—Have you any suggestions with regard to this?

Mr. Guha.—Alter the law.

Mr. Rahimtoola.—To the effect that the country of origin should be mentioned?

Mr. Guha.—Yes.

Mr. Rahimtoola.—As regards question 28 you said you would supply the information later.

Mr. Guha.—I left written instructions in my office to send it to me but I have not yet received it. I will however send it along with the other statements.

Mr. Rahimtoola.—What about stocks: was it as high as 9,45,000 in 1931?

Mr. Guha.—In 1931 we had large stocks.

Mr. Rahimtoola.—But the double shift working started in 1931?

Mr. Guha.—We had very big stocks in 1931 before the pujahs. Double shift working started two years ago.

Mr. Rahimtoola.—Then that is accountable for this big stock?

Mr. Guha.—Yes.

Mr. Rahimtoola.—What is the present stock?

Mr. Guha.—Practically nothing except cotton. There is no stock of finished goods.

Mr. Rahimtoola.—What is the system you adopt regarding the purchase of cotton?

Mr. Guha.—We invite quotations from Bombay and other quarters and purchase on those quotations.

Mr. Rahimtoola.—You don't send men to the districts where cotton is grown?

Mr. Guha.—No. We find the market so unsteady that if we send a man when the market is high we may lose.

Mr. Rahimtoola.—Is it not advisable if you want to get good quality of cotton?

Mr. Guha.—Yes, but instead of storing at a time we buy forward.

Mr. Rahimtoola.—You deal in forward transactions?

Mr. Guha.—Yes.

Mr. Rahimtoola.—Do you happen to find that you make certain amount of losses in forward transactions?

Mr. Guha.—Sometimes, but we never sell cotton.

Mr. Rahimtoola.—But when you are buying forward aren't you running the risk of making a loss?

Mr. Guha.—Only rarely. About four months ago we bought some cotton; since then the price of cotton went down so that we incurred some loss but since the last two months we find there is a profit.

Mr. Rahimtoola.—As regards the managing agency system I have seen the note you have sent to us. I suppose yours is the only mill in Bengal which has got managing directors. Are there any new mills coming up with managing directors?

Mr. Guha.—Yes, the Bangeshwari Cotton Mills.

Mr. Rahimtoola.—And amongst the prospectuses have you found any one who is likely to float a company with managing directors? The reason why I ask you this question is that I want to see the trend of mind of the investing public, whether it is gradually going towards the managing director system.

Mr. Guha.—Most of the companies that have been floated are under managing agents, but my own idea and that of the investing public is favourable to the managing director system.

Mr. Rahimtoola.—Coming now to the question of remuneration, I take first the duties of managing directors. I suppose all the three managing directors have joint responsibility?

Mr. Guha.—They are jointly and severally liable.

Mr. Rahimtoola.—Their pay comes to about Rs. 650 a month?

Mr. Guha.—Yes.

Mr. Rahimtoola.—Besides this they are not interested in any other commissions which the company may get or the company may have to pay on account of purchase of stores, purchase of cotton and so on?

Mr. Guha.—Nothing.

Mr. Rahimtoola.—The period you have stated is ten years subject to renewal by the Board of Directors?

Mr. Guha.—Yes.

Mr. Rahimtoola.—Do you think that period a sufficient inducement for the managing directors to work in the interest of the company?

Mr. Guha.—We agreed to it.

Mr. Biswas.—Probably they expect re-appointment.

Mr. Rahimtoola.—There are other kinds of agreements which I have seen in which though the initial period is 10 or 15 years, the right of renewing it entirely rests with the managing directors, unless they are found guilty of gross negligence. In your case after the expiry of the period you may be asked by the directors to leave!

Mr. Guha.—If the directors ask us to leave we must leave.

Mr. Rahimtoola.—There are not sufficient facilities at Dacca for borrowing from banks: are there no banks there or is it the double signature that prevents it?

Mr. Guha.—They insist on double signature and they do not advance money on block.

Mr. Rahimtoola.—At present you know the practice is to get a guarantor and that guarantor becomes managing agent. The managing agent personally guarantees the loan which the Imperial Bank gives to the company. Supposing all three of you were to give that guarantee would that be sufficient?

Mr. Guha.—We have never tried that.

Mr. Rahimtoola.—You have never tried to borrow from the Imperial Bank?

Mr. Guha.—We tried at one time but they did not give us.

Mr. Rahimtoola.—I want to know whether they would be satisfied with the managing directors guaranteeing the loan.

Mr. Guha.—There would be difficulty. But from the persons from whom we take money we have not got to have any such guarantee.

Mr. Rahimtoola.—Do you generally get deposits without much difficulty?

Mr. Guha.—We get deposits from the public of about a lakh of rupees. We have to pay a very low rate of interest, only 4½ per cent. per annum but sometimes we have to borrow from private parties.

Mr. Rahimtoola.—And in that case you have to pay a very high rate of interest?

Mr. Guha.—At present there is no loan over 7½ per cent., but sometimes we have paid up to 9 per cent.

Mr. Rahimtoola.—Can we say that the interest on working capital is 7½ per cent. on the average?

Mr. Guha.—Yes.

Mr. Rahimtoola.—I don't understand this drawback which you have put here under a system of management by managing directors?

Mr. Guha.—Managing directors system is quite good when the industry has reached its fully developed stage. It is not good at this stage when it requires development.

Mr. Rahimtoola.—When the industry is in its pioneering stage?

Mr. Guha.—The management must have a freer hand.

Mr. Rahimtoola.—You know the cotton textile industry is at present established in this country for a large number of years. Supposing a system of managing directors is adopted by a new mill that is started. Then what is the handicap to that company as compared with an old company when it is managed by a managing director with a tenure of service of ten years with a fixed remuneration?

Mr. Guha.—He is under the control of the directors. In the case of managing agents they are not under the directors' control.

Mr. Rahimtoola.—Technically they are.

Mr. Guha.—But in fact they are not.

Mr. Rahimtoola.—I would like to understand this point a little more fully because I consider it of some importance. If the managing agent in a company has got three or four or a majority of directors who are independent and in no way connected with the mills either through the purchase of cotton or purchase of stores or through managing agency partnership, in that case can't they exercise the same amount of control which independent directors are supposed to exercise over managing directors? It has been alleged that some of the concerns in this country have directors the majority of whom are interested in the managing agents in some shape or other and therefore the managing agents though technically under the

control of the directors, in practice they are not so. Is that what you have in mind when you say that managing agents are not under the control of directors?

Mr. Guha.—They are not so much under the control of the directors.

Mr. Rahimtoola.—You mean agreement of "perpetual life" as you put it makes them indifferent to the board of directors?

Mr. Guha.—Not exactly indifferent but under the agreement they have great powers.

Mr. Rahimtoola.—Is it your view that they have been given larger powers than that given to the managing directors under the new system which you are contemplating?

Mr. Guha.—Yes. Moreover they should stake something in the company in which case they would take greater interest in the company. Take for example the Tea industry in Bengal. There the Managing agents even mortgaged their property; they mortgaged even their houses, their ornaments in the interest of the company.

Mr. Rahimtoola.—The banks at present want a personal guarantee. The directors look to the finance; the managing director need not look to the financing because the directors are supposed to make arrangements for financing the mill which they are running.

Mr. Guha.—The directors look to the policy: if so much money is wanted the managing directors must get the money.

Mr. Rahimtoola.—In answer to question 14 you are asking for fortnightly meetings. What is the system at present in your mill?

Mr. Guha.—We have not tried this system at all, we have only thought about it. There ought to be a standing committee in which the management should be represented and the officers and operatives should be represented in equal numbers. This committee should meet once a fortnight and discuss amongst themselves any complaints or other matters of importance and exchange their views.

Mr. Rahimtoola.—What you want is a more or less informal discussion between the various interests that form the company from time to time in order to arrive at a decision on various suggestions and put them into effect; is that your suggestion?

Mr. Guha.—Yes.

Mr. Rahimtoola.—But you have not tried it in your mill?

Mr. Guha.—We have not come to any decision yet.

Mr. Rahimtoola.—But you personally are of the opinion that it will lead to the benefit of the company?

Mr. Guha.—That is my personal opinion.

Mr. Rahimtoola.—As regards question 44 you are not asking for preferential duties on political grounds, are you?

Mr. Guha.—Not exactly on political grounds. We say protection should be given against imported cotton goods from any country.

Mr. Rahimtoola.—There is another reason which you urge here, namely that India is now in a position to manufacture finer goods which come in direct competition with Lancashire.

Mr. Guha.—Exactly.

Mr. Rahimtoola.—Look at your answer to question 45. What is this wrong mixture and false packing that you suggest as the two malpractices?

Mr. Guha.—That was based on a report sent to the Chamber about certain defects.

Mr. Biswas.—What we say in the last paragraph of our answer to question 45 is as follows: "The Committee also take this opportunity

of drawing the attention of the Board to the inconveniences suffered by the cotton mill industry caused by (1) 'wrong' mixtures of inferior cotton with staple cotton, (2) deliberate damping, (3) false packing ".

President.—I take it that applies chiefly to Punjab American?

Mr. Guha.—That is the worst culprit. Sometimes seeds are mixed and the cotton also gets mixed up.

President.—There has been gradual improvement?

Mr. Guha.—Yes.

Mr. Rahimtoola.—What is this false packing? Does it mean the same thing as No. (1)?

Mr. Guha.—False packing in my experience is sometimes foreign matter is put in to add to the weight.

Mr. Rahimtoola.—Improvements have been made in all these three directions and you are satisfied with those improvements.

Mr. Guha.—Yes.

Mr. Boag.—You say that your Chamber represents 4 mills.

Mr. Biswas.—Yes.

Mr. Boag.—Are these new mills?

Mr. Biswas.—Dhakeswari and Lakshminarayan are new and Bengal Luxmi and Mohini Mills are old.

Mr. Boag.—Which is the oldest?

Mr. Biswas.—Bengal Luxmi Mills. In the present stage it was started in 1906 and previously the original Company was started in 1885 and changed hands many times.

Mr. Boag.—Where is that mill?

Mr. Biswas.—At Serampur.

Mr. Boag.—Are there any other old mills like that?

Mr. Biswas.—Kashtia mill in the District of Nadia. That is also an old mill.

Mr. Boag.—Of the four, two are old mills and two are new mills?

Mr. Biswas.—Yes.

Mr. Boag.—There is a statement that you make that the consumers have a deliberate taste for finer goods. Does that mean that the people who are used to wear coarse cloth now require fine cloth?

Mr. Guha.—Bengal market wants finer cloth especially dhuties and saris.

Mr. Boag.—Does it mean that the people are now wearing different cloths or does it mean that the market which was supplied with fine cloth from abroad is now being supplied by the Indian mill?

Mr. Guha.—Before the swadeshi movement, Lancashire supplied all the requirements of Bengal. Before Lancashire came in, the handloom industry used to supply the needs of the country. The handloom industry at that stage used to manufacture very coarse cloth. With the coming in of Lancashire in the field, people got into the habit of wearing finer cloth.

Mr. Boag.—There is a movement going on all the time in favour of finer and finer cloth. Is that peculiar to Bengal or to other parts?

Mr. Guha.—Yes. I have no experience of other parts of India.

President.—Like your taste for white salt which I understand started with the import of Cheshire salt 10 or 15 years ago.

Mr. Rahimtoola.—Your point is that finer qualities of goods are wanted by people who are in the habit of wearing Lancashire goods.

Mr. Guha.—Yes. Lancashire goods are fine.

Mr. Boag.—What you say is that consumers are fast developing a taste for finer goods. Old mills are making alterations in machinery to meet the demand. Mills which used to manufacture coarse goods now find that the demand is for finer goods.

Mr. Guha.—If you take the history of Indian mills, you will find that all the mills used to spin mostly of lower counts. That was the class of goods which the Indian mills used to manufacture, but gradually they are all going in for finer dhuties and saris and there is a demand for this class of goods in the country.

President.—There are two points. The proportion of Indian production of finer varieties to the total production in Bengal has gone up.

Mr. Guha.—Yes.

President.—Along with that has there been an increase in the proportion of finer classes of goods in the total consumption in the Bengal market?

Mr. Guha.—Yes.

President.—In that case these finer goods which are made in the Bengal mills are not merely replacing the Lancashire goods, but are increasing the demand for finer goods.

Mr. Guha.—There is always a demand for finer goods.

President.—I do not know if you can explain to me the mechanism of it. Whenever there is a rise in the price of cotton, there is straightaway a rise in the price of piece-goods. It reacts at once. Whenever you find, for example, in market quotations a sudden rise in the price of raw cotton, you find straightaway there is a rise in the price of piece-goods.

Mr. Guha.—There is a tendency.

President.—It doesn't rise to the same extent, but the market gets firm. Supposing to-day you get a sharp rise in the price of American cotton and consequently to some extent in the price of Indian cotton, to what extent does that benefit the Indian Textile Mills? As I understand it, you are able to benefit by it to the extent that you have already purchased cotton. Supposing you have stocked raw cotton at previous low prices, then to the extent that the price of piece-goods goes up, you are able to make a margin, because the cost of your raw materials has been correspondingly low. Therefore on that basis the benefit which the Indian mill would derive would be confined to the period for which ordinarily stocks of cotton are kept. Supposing I said in Bengal mills normally the benefit would be confined to a period of 3 months, that would be right. After that you have got to replenish your stocks of cotton. You have got to buy it at increased rates and the benefit ceases.

Mr. Guha.—When there is a rise in the price, I do not think that the piece-goods market also will always rise. There is a healthier tone in the market.

President.—I do think that prices do get firm.

Mr. Guha.—There is a healthier tone.

President.—It is only a temporary advantage confined to the period for which stocks are normally kept.

Mr. Guha.—Yes.

President.—About 2 to 3 months?

Mr. Guha.—Yes. As a concrete case we may tell you that we cover practically the staple cotton of India up to June. We are short for half the period. We are covered for over 6 months. The price of cotton has gone up by Rs. 8. For the next three months we are safe.

President.—Under the recent notification of the Government of India duties have been put up by 50 per cent. The depreciation of Japanese yen has proceeded much further than we estimated in our report. To what extent has the drop in price on account of the depression in the

yen since we reported been made up by the increase in the price of raw cotton which has taken place since then? To what extent the Indian manufacturers have been compensated in one direction by the loss that they are incurring in the other direction. As a practical man what do you think is the position if you are balancing?

Mr. Guha.—All mills have not stocked. Some mills have stocked.

President.—I came across 2 or 3 people who did not benefit by that.

Mr. Guha.—Because the market was always going down.

President.—Supposing you viewed the case generally, what would you say?

Mr. Guha.—It is very difficult to say anything.

THE BOMBAY CHAMBER OF COMMERCE.

Evidence of Messrs. L. A. HALSALL and A. L. HUTSON, recorded at Bombay on Thursday, the 25th August, 1932.

President.—Gentlemen, you represent the Bombay Chamber of Commerce?

Mr. Halsall.—Yes.

President.—I propose to confine my questions to the more important of the points you have raised in reply to the questionnaire. In paragraph 2 of your replies you refer to the opinion you expressed before the Tariff Board in 1926 that "if the millowners could prove to the satisfaction of the Board that they were suffering from unfair competition relief in some form or other must be given to them", and you reiterate that opinion now. May I take it that you support the claim of the Textile industry to protection only to the extent that the industry is faced by competition of unfair character or do you support also the claim of the industry to what I may call substantial protection? What I mean is this: Last time when the Tariff Board enquired into this question the main ground on which the Bombay Millowners' Association asked for protection was that labour conditions in Japan were unfair in comparison with the conditions out here. That was the main ground on which they asked for protection. Supposing it turned out on an enquiry into the facts now that labour conditions in Japan or in other foreign countries competing with India are not unfair in comparison with conditions here, then is it your suggestion that you would not support their claim for protection?

Mr. Halsall.—We would support it subject to the qualification that any measure of protection sanctioned should be based on what is necessary for economically and efficiently managed mills.

President.—That is to say, if it is found on an examination of the costs of economically and efficiently managed mills in India that they are unable to compete with imported textile goods at prices at which they are imported, then even if the excess of cost in India is due to other causes than unfair competition from exporting countries, if the costs of economically and efficiently managed mills justified it, you would support the claim for protection?

Mr. Halsall.—We would because for one thing, as we mention here, we regard the industry as of great importance to Bombay and to India generallly.

President.—I come to this qualification that you have made, that is to say, the extent and the form of protection must be judged with reference to the conditions obtaining in efficiently and economically managed mills, that is more or less on the basis on which we have framed our own questionnaire. What I mean is this: what we have asked the Millowners' Association and individual mills is to give us the costs of representative mills and we have qualified that statement by saying that those mills must have reasonable output and reasonably modern equipment. That more or less agrees with your ideas on the subject. If we based the measure of protection on the costs given to us by mills having a reasonable output and equipped with reasonably modern machinery then our position is exactly the same as yours.

Mr. Halsall.—Yes, Sir, in so far as equipment with reasonably modern machinery is one of the essentials of efficiently managed mills.

President.—The Millowners' Association have given us the cost of about a dozen mills which are not the strongest mills in Bombay; at the same time they are by no means the weakest in Bombay, and I want you to tell me if you can whether you consider a concrete test of this kind satisfactory. We are going to judge the reasonableness of the output on

the basis that the mills in question must be equipped with at least a thousand looms and 40,000 spindles. Would you consider that a reasonably economical size for a mill in India?

Mr. Hutson.—Yes.

President.—One finds that in a large number of mills both in Bombay and elsewhere in India the machinery appears to have been bought many many years ago: suppose we based our examination of costs on mills whose machinery was purchased and installed say, within the past 15 or 20 years, don't you think as a ready means of judging the modern character of the machinery that would be a fair test?

Mr. Hutson.—Of course there have been great many improvements in machinery within 15 years.

President.—Supposing you found that among the mills whose costs we have been considering some of them have purchased first class British machinery, say, about 20 years ago—I understand British machinery have long life—and that machinery is still in sound working order—it may be in certain important details important appliances have been devised which these particular mills have not yet purchased—but if they have machinery of that kind, that is to say, first class British machinery purchased 25 years ago and still in good working order, in that case would you consider those mills reasonably equipped?

Mr. Hutson.—I would say that efficiently managed mills would have progressively replaced a good deal of the machinery bought in previous years.

Mr. Rahimtoola.—Could you tell me which mill in Bombay you would consider to be efficiently run?

Mr. Halsall.—That is very difficult to answer, and is asking us to draw invidius comparisons.

President.—If a mill works with machinery bought 15 years ago and has taken reasonable steps for renewing the plant, that would be quite a reasonable basis to apply?

Mr. Halsall.—Yes.

President.—I take it by renewal what you mean is not merely first class repairs but substantial renewals cost of which is generally met from depreciation?

Mr. Halsall.—That is so.

President.—Not merely repairs?

Mr. Halsall.—No.

President.—I do not propose to ask you any question on your reply to question 1. That is the conclusion we took out of Mr. Hardy's report and I find that the statement you have made is in accordance with the statement that we have received from other important bodies and associations, so I don't think I should trouble you regarding that. I now come to your reply to question 6. I am afraid the point of that question is rather obscure and we accept responsibility for it. The idea that we had at the back of our minds with reference to this question was this: If you take the production figures of Bombay mills during the strike years—end of 1927 to the beginning of 1929—there was a very considerable fall in the production of the Bombay mills. We tried to compare the fall in the production of Bombay mills as a result of the strike with the extent to which mills in other parts of India were able to raise their production during the same period to meet the deficiency thus created and then compare the increasod production in other centres with the increase in imports from Japan during the same period. I find on those figures that the total deficiency in the Bombay mills was made up to the extent of a little less than 50 per cent. by Ahmedabad and various other upcountry centres and to the extent of 50 per cent. by increased imports from Japan. When the upcountry mills met 50 per cent. of this deficiency that meant in their case an increase of 13 per cent. on their previous production. In the case of Japan when they supplied 50 per cent. of the deficiency it meant an in-

crease in their imports over the previous figure of very nearly 45 to 50 per cent. and we suggested a tentative inference to the Bombay Millowners' Association that in the course of the two years when there was an almost rare opportunity for increasing production in India, the Indian mills increased their production to the extent of 13 per cent. whereas at the same period it was possible for Japan to increase its import by 50 per cent. In other words the necessary increase in output, extensions and so on are easier for Japan to achieve than for Indian mills as they are situated now. That was more or less the idea we had at the back of our minds. If on the basis of these figures I suggest that if the protective duties are withdrawn next year then that is the way in which things are going to develop: imports from countries like Japan would increase in very much greater proportion than the increase in the production of upcountry mills.

Mr. Hutson.—When you say the imports from Japan have increased by about 50 per cent. you compare the imports from Japan with the production of Indian mills. The percentage of the Japanese increase in production would be very much under 50 per cent., possibly only 4/5 per cent., because Japanese exports to India are only a small part of their production.

President.—That is not entirely relevant to the question. Japanese imports in 1927, let us say, was 100: if you take the average of their imports in 1928-29 it would be on those figures about 145. That is how you understood it. Your point is that 145 does not necessarily mean that the production in Japan as a whole has increased to that extent?

Mr. Hutson.—That is so.

President.—I don't suggest that at all. All that I suggest is that for an importing country like Japan catering for a large number of markets it is easy to regulate its trade; when a big deficiency in the Indian production has to be met, it can be met by Japan by regulating its exports, and not necessarily by increasing its production. That would be a correct statement?

Mr. Hutson.—That was possible for the reason that probably in the years before that period Indian mills upcountry would have been working far nearer to capacity than Japanese mills specially with the Japanese mills' ability to work double shift when it was necessary.

President.—It is not that there has been actual capital extension during that period but it is rather the capacity of Japan to increase its output by the adoption of devices like double shift production?

Mr. Hutson.—Their capacity of production is very flexible.

President.—With regard to question 7, I should be grateful if you could give us certain details with regard to item No. 5. These steamer freights are generally given per ton of 40 c.ft. I do not know if it will be possible for you to give us the equivalent of a cubic ton in lbs. in regard to standard cloths; that is to say, if you take for example some kind of standard longcloth, if you can visualize a ton of 40 c.ft. how many lbs. a ton of that kind is likely to be. Unless we get that, it would be very difficult for us to use it in comparison with the freight rates that the Bombay mills have got to bear in transporting their goods, say from Bombay to Calcutta.

Mr. Halsall.—We will try to work it out for you. But we will require some time.

President.—We will give you four weeks. Then I come to your answer to question 39. That is giving us a great deal of trouble, and I am afraid I am finding it one of the most difficult questions that has got to be solved in this enquiry. Assuming for argument's sake, a case for protection is made out and it is also decided that protection should be given in the form of import duties whether that duty should be *ad valorem* or specific duty, your contention is generally that the present basis should continue?

Mr. Halsall.—Yes.

President.—That is to say, the minimum specific duty should be continued in regard to classes of goods on which they are levied now and those are probably two classes, first, plain grey and the second is coloured woven.

Mr. Halsall.—We did not imply by our answer the same rates of duty.

President.—The rate might be anything else. May I take it that you are basing your opinion regarding this matter on the grounds stated in Mr. Hardy's report?

Mr. Hutson.—Yes, to a very great extent, but generally speaking specific duty is the most equitable form of duty.

President.—Unfortunately the Tariff Board is not an equitable body. Our primary consideration is protection and we want to be as equitable as possible consistently with the effectiveness of protection that we grant. I will tell you precisely what my difficulty is. In that case you will appreciate my point better. We have been looking into the Trade Returns since protection was granted. The present Protection Act was introduced early in 1930. So we took the figures of imports for 1929-30, that is to say imports before the protective duties were introduced, and then compared the trade figures with regard to imports in 1931-32, the latest year for which we have figures. What I find is this: the two classes of goods on which minimum specific duties are now levied, *viz.*, on plain grey and coloured woven. The import from Japan in 1929-30 of plain grey was 336 million yards. In 1931-32 it was 132 million yards, a reduction of 60 per cent. In coloured woven the import from Japan was 74 million yards in 1929-30 and 17 million yards in 1931-32, a reduction of 77 per cent. Take the other classes; white bleached in 1929-30 Japan imported 14 million yards and in 1931-32 imported 60 million yards, an increase of 327 per cent. That is where only *ad valorem* duties were applicable. In 1929-30 imports of dyed goods were 28 millions and in 1931-32 29 millions. There is a slight increase, no fall at all. Imports of printing stuff in 1929-30 were 52 million yards and 48 million yards in 1931-32, hardly any fall—practically stationary. For artificial silk goods we have no separate figures for 1929-30. In 1930-31 the import of artificial silk goods was 31 million yards and in 1931-32 74 million yards, an increase of 220 per cent. The two classes of goods on which the minimum specific duties are applicable have shown a very considerable fall. In other words in their case protection has been justified. In other cases, as far as I can judge from the figures, protection has been ineffective. If I said on the basis of these figures that as a means of protection *ad valorem* duties are far less effective than specific duties, you would accept that proposition?

Mr. Hutson.—I am afraid not. It has merely happened that during that period there has been a consistent fall in the price of cotton and of cloth. In a rising market the very reverse would operate.

President.—That would apply to all classes of goods?

Mr. Hutson.—Yes.

President.—But it does not apply in the case of white artificial silk, dyed and printed, and there has been no fall.

Mr. Hutson.—In a falling market an *ad valorem* duty is less effective than a specific duty, because the amount of the duty continually decreases.

President.—Your point is that *ad valorem* duties are an ineffective form of protection, provided the market is a falling market. If the market is a falling market, you admit that specific duties are the best form of protection.

Mr. Hutson.—The most effective form.

President.—Unless we are in a position to assure ourselves that during the next five years, that is, the period you suggest, the market is going to be a steady or a rising market, then you would agree that specific duties would be better. I have got to assure the Indian industry that the protection that we consider necessary for the industry to receive is maintained. Assuming against your expectations and mine the falling character of the market continues, don't you think an *ad valorem* duty would defeat the

very object of protection? See what happened during the past 3 or 4 months. Supposing a position of that kind arose, an *ad valorem* duty would be completely ineffective.

Mr. Hutson.—Comparatively, the incidence of the specific duty has been very high.

President.—I shall come to that question later. That is simply a question of altering the rates. For example if you find that the present rate is too high, we can alter it. I am now talking about the form of protection and not the rate of protection. I have got to assure myself that India is principally competing now with Japan. I don't say the effect of the exchange depreciation is going to continue for a period of 5 or 6 years. It is a temporary factor. Supposing, for example, Japan is able to effect further economies in their methods of production, there is no limit to which costs can be brought down in Japan. Supposing that happens and prices steadily fall apart from depreciation of exchange, apart from any general depression, what are you going to do? You have got to ensure the industry against that. That is the problem with which we are faced. If that is accepted for the moment, then we are up against the very serious question to which I have been able to get no satisfactory answer yet. How are you going to devise a system of specific duties on a class of goods like piece-goods. There are two kinds of difficulties in it. If it is assumed that for the sake of protection you have got to have specific duties, then a very real effort has got to be made to devise a system. That is the point from which we are looking at.

Mr. Halsall.—We appreciate the difficulties of the specific duty. It would require a prolonged investigation to arrive at a suitable method. As Mr. Hardy pointed out there are administrative difficulties.

President.—I do not know if you have considered in detail the administrative difficulties which Mr. Hardy pointed out. I am not an expert in these matters, but rightly or wrongly the Government of India have asked me to make up my mind on this question with such knowledge as I have. The main administrative difficulty that Mr. Hardy pointed out is this: that in regard to more important classes of goods imported into India, *viz.*, grey goods, imports arrive in this country packed in bales. If you adopted the present basis of the specific duty, *viz.*, weight per lb. as the basis of the duty, and if you wanted to ascertain the weight of grey goods, then it would be necessary for Customs to open the bale and open the hoops and it would be very difficult to repack it in bales. If that is the principal difficulty, I should like to ask whether it is not possible for us to ask the Customs Officers throughout India to find out the approximate average figure for the weight of tare. You take your bale of cloth, deduct from it the average tare and then take the rest as the weight of the goods and apply your lb. duty.

Mr. Hutson.—That is at present done in the case of bales by the Customs.

President.—As a matter of fact Customs have got into the habit of doing it. Can't they do it hereafter? I think reading Mr. Hardy's report very carefully that was one of the most important administrative difficulties he felt to which he drew pointed attention in the Assembly when the Protection Act was under consideration. As far as baled goods are concerned in order to ascertain the necessary weight it is unnecessary to take a particular piece of cloth included in a bale.

Mr. Hutson.—No.

President.—Then the only other difficulty is that especially in regard to bordered grey you will find in the same bale different kinds of bordered grey and one particular kind of bordered grey may have a different weight from that of another. There the difficulty is really that in the case of the more expensive kinds of bordered grey, the specific duty may be slightly lower than the *ad valorem* duty and Government may therefore suffer. If I said in answer to that that if you fixed an alternative *ad valorem* rate

which Mr. Hardy did not consider and he only considered the question of specific duties as you have now, the requirements of the revenue would be sufficiently met.

Mr. Halsall.—Yes, as the duty payable would be, whichever is higher.

President.—Supposing it was 20 per cent. *ad valorem* or As. 3-6 a lb. specific duty, in that case Government won't suffer in respect of revenue. I do not want you to commit yourself to any definite opinion. If you would be so good as to consider these points and later on if you are in a position to give us your views, I should be obliged.

Mr. Hutson.—The principal difficulty is the large number of different sorts of goods. Mr. Hardy considered the application of a large number of specific duties. That is to say there are goods which may cost Rs. 6 a lb. On those you cannot put a duty of 4 annas per lb. There are other goods which may cost as low as 4 annas. If you levy a duty of 4 annas on that, it would be 100 per cent. You have got to have a scale.

President.—That is to say the difficulty to which you attach weight is not so much purely an administrative part of it, but what may be called the incidence of the duty.

Mr. Halsall.—The administrative difficulty in seeing that the incidence is fair.

President.—Supposing you apply a specific duty of 4 annas or 5 annas a lb., which may bear more hardly on one kind of cloth than another and you have various recognised brands which have been in the market for many years and if a specific duty is substituted for an *ad valorem* duty, then the incidence of the duty as between these brands of cloth may be very different from what it is now. Therefore certain brands may suffer in comparison with other brands. Is that the point?

Mr. Hutson.—Mr. Hardy contemplated a graduated specific duty, with, for example, a duty of 4 annas a lb. on goods below a certain fineness. Afterwards the specific duty would suddenly jump to 6 annas. All the goods on the border line would be cut out.

President.—Mr. Hardy had to consider that because he was not asked by the Government of India to consider a system under which *ad valorem* and specific duties would be combined. But suppose we continued the present system of combining the *ad valorem* duty with the specific duty, then that difficulty would be largely met.

Mr. Hutson.—Yes.

President.—Are you in a position then to say that if we adopted a system of specific duties on all classes of goods, but we took good care to combine the specific duty with a general *ad valorem* duty and made the specific duty a minimum duty, then your objection would not be pressed.

Mr. Hutson.—Not to a single specific duty.

President.—It might be different for different classes of goods. That would not make any difference from your point of view. Let us take a concrete case like this. For example let us say As. 3-6 for plain grey, 4 annas for bordered grey, As. 4-6 for white and 5 annas for coloured goods. I am simply giving you a broad classification. In each case there will be an *ad valorem* duty: 20 per cent. or As. 3-6; 20 per cent. or annas 4; 20 per cent. or As. 4-6; and 20 per cent. or 5 annas: supposing it was put in that form?

Mr. Hutson.—That will get over the administrative difficulty pointed out by Mr. Hardy. There the difficulty comes in where on the same class of goods you suddenly jump from 4 annas to 6 annas and the value of the goods increases.

President.—If we may judge by the experience of Custom Houses during the past two years that this system has been in force, I am inclined to think, although from a purely theoretical point of view the *ad valorem* system is better, the difficulties have not been so very great as to make it necessary to rule the thing out, and if my contention is correct, that

from a protective point of view, in view of the possibility of a falling market, the specific duty is a necessary guarantee to the Indian industry even at the risk of a little inconvenience to Customs Officers, it is necessary in the public interest to have a system of this kind. That is how I am trying to look at it. Don't you think that would be a sound way of broaching it.

Mr. Halsall.—As you elaborate the specific duty, your administrative difficulties, examination and assessment difficulties will probably increase twofold.

President.—I quite agree with you that if you had a very elaborate classification and say you had a system of specific duties, applied different rates to 30 or 40 different kinds, then the administrative difficulties would be very, very complicated, but you would have to take care that if the specific duties are differentiated, they should be differentiated on a broad classification.

Mr. Halsall.—They will have to be very broad.

President.—Say 4 or 5 classes; otherwise, as you say, it would be very elaborate and very difficult.

Mr. Halsall.—Yes.

President.—There is another point on which I would like your opinion very much. That was not a point to which we drew your attention in the questionnaire. The method which the Tariff Board has followed generally in enquiries of this kind is this. We have got to fix a measure of protection, a rate of duty and what we generally do is we calculate what we call a fair selling price for the Indian industry. Supposing for example it is found on some representative class of grey goods that Indian industry requires about 16 annas a lb. including interest charges, profit, depreciation and so on, what we generally do is to take the c.i.f. price of corresponding class of imported goods. Supposing that is found to be 13 annas, then we fix the rate of duty at 3 annas. In the case of steel, in the case of matches and so on, it is a fairly easy system, but the difficulty we feel in piece-goods is that there is an enormous variety of piece-goods made in India, enormous variety of piece-goods imported. I cannot pick out one particular class of Indian cloth and say that this competes with the particular class of imported cloth. You simply can't do it.

Mr. Hutson.—No.

President.—Therefore our ordinary method of fixing the measure of protection completely fails and the method on which we have been trying to solve this question is we don't take the c.i.f. price. We calculate a fair selling price for the Indian industry, say, for plain grey, 16 annas, and we try to find the most recent realised price for that particular class of cloth. For example if a reasonably first class mill here is able to realise for that kind of cloth, say, about 15 annas, it is able to realise 15 annas, partly because there is a duty. We deduct the duty from that. Let us take it approximately as 3 annas. Deducting the duty, the mill's realised price would be 12 annas and we say that this realised price reflects all the competition which the industry has to face. It has realised that price because that is the price that it can get in face of competition from imported goods. Instead of taking the c.i.f. price, we take the realised price?

Mr. Halsall.—You mean the ordinary bazar selling price?

President.—The wholesale price *ex*-mill. I don't see any other basis on which it can be done.

Mr. Hutson.—I should think even in that case it is very much more difficult to discover in the case of cloth whether 16 annas is the price which that cloth should be manufactured at.

President.—You mean the fair selling price?

Mr. Hutson.—Yes.

President.—That I admit is the difficulty. I will raise that question later on. I am now on the import price. If I cannot base the measure

of protection on the c.i.f. price, for practical purposes is it reasonable for me to have as an alternative the price realised by the mill? That is what I want to get at. We have got the fair selling price estimated for the industry, let us assume for argument's sake. You have to compare it with the price on the other side, that is, the import side. I cannot get any c.i.f. price because I do not know which cloth is comparable with which. Therefore I do not know what exactly is the comparable price realised by the imported cloth?

Mr. Hutson.—You have to take the average of mills all over the country.

President.—Supposing I took the average of 12 representative mills in Bombay. We have also realised prices and costs from mills in upcountry centres, say from Calcutta and other places. Supposing we took the average of realised prices in that way, we cannot go far wrong?

Mr. Halsall.—That realised price would also be affected by the absence or excess of internal competition.

President.—That is quite true.

Mr. Hutson.—And by a number of other things.

President.—Supposing we took over a period of a year, cannot you more or less discount the variations in the market? Supposing I took the prices from 1931 June to 1932 June or some period of that kind?

Mr. Halsall.—In a normal year?

President.—When you use the words "normal year", do you mean the abnormality resulting from exchange depreciation or from the general depression?

Mr. Halsall.—From the general depression. All conclusions drawn from an examination of statistics of the past three or four years will have to be qualified.

President.—What is your suggestion then? This problem has to be met; otherwise we will have no recommendations to make?

Mr. Halsall.—It is a very difficult problem. We will have to think it over.

President.—Would you think it over?

Mr. Halsall.—Yes.

President.—Have I made my point quite clear?

Mr. Halsall.—Yes.

Mr. Hutson.—You are not thinking of 12 mills in Bombay only?

President.—I was thinking of 12 mills in Bombay. But we have also representative mill costs from other centres.

Mr. Hutson.—That is what I want to know.

President.—As regards your reply to Question 42, I suppose the suggestion that you are making there is simply with a view to stabilising the present arrangements?

Mr. Halsall.—Merely to clarify what happens in actual practice.

President.—It is rather a ticklish question that you raise in your reply to Question 43. Your suggestion is that if it is found necessary to apply a protective duty to artificial silk goods, then it must be made a condition precedent that no restriction should be placed on the production of such goods in India?

Mr. Halsall.—Yes.

Mr. Hutson.—You cannot ask for protection if you do not definitely make any class of goods.

Mr. Boag.—Which you can make but which you refuse to make?

Mr. Hutson.—Quite so.

President.—Unfortunately we have, as a Tariff Board, in the past recommended protective duties on articles which may be used as substitutes which are themselves not produced in the country. We have done that and the

Government and the Legislature have walked into our parlour on that question. I am thinking particularly of this. If you think that the analogy is not correct, you may tell me so. When we enquired into steel, we found that steel bars were liable to competition not merely from imported steel bars but also from imported wrought iron bars, which are not made in India. We thought that in order to safeguard the production of steel bars in India it was necessary to apply the same protective duty to wrought iron bars although we definitely knew at the time that no wrought iron bars were made in India and that no attempt was made to make them. That principle was accepted by the Legislature—"You can apply your protective duty to a substitute article although the substitute article is not and cannot be manufactured in the country". Having given my assent to that principle, now if I go back, I expect that somebody will put a question mark against it and I don't see any logical ground on which I can differentiate?

Mr. Hutson.—Our only point is that the artificial silk cloth can be made in the country and that it has been made in the past.

President.—That is to say out of imported artificial silk yarn.

Mr. Hutson.—It is not a question of manufacturing yarn but piece-goods made wholly or partly of artificial silk yarn. They can be made without any alteration of machinery.

President.—The same looms can be used. There is no fundamental difference?

Mr. Hutson.—No. The difference is only a difference in detail.

Mr. Boag.—Have they been made in any quantity in the past?

Mr. Halsall.—No.

Mr. Boag.—They were just beginning?

Mr. Halsall.—Yes.

President.—With regard to that point I should like to put this to you. Suppose we accepted your proposal of 4 annas per square yard, looking into the present prices we find that it is about 120 per cent.?

Mr. Hutson.—On some qualities, it would be.

President.—Yes, about 120 per cent. At present the duty on artificial silk yarn is 18¾ per cent. and the duty on artificial silk goods 50 per cent. Supposing we made no recommendation with regard to artificial silk yarn, left the duty at its present level, and we raised the duty on artificial silk goods from 50 to 100 per cent.?

Mr. Hutson.—In the case of certain styles.

President.—Whatever you consider.

Mr. Hutson.—Only on the cheapest style. On the better class of goods it goes as low as 50 per cent.

President.—If you had to take an intermediate figure, would you say 75?

Mr. Hutson.—Probably 100 per cent. on the bulk.

President.—It would be 100 per cent. on the bulk.

Mr. Hutson.—Yes.

President.—The point that I want to raise is this. If the spread in the duty between yarn and piece-goods is raised from what it is now, namely, about 32 (50 *minus* 18), to 82, the manufacture of artificial silk goods would be a very much more attractive proposition than ever it was in the past?

Mr. Hutson.—Yes.

President.—What I want to ask you is this. I am not a business man but I have had a lot to do with business men in the last 7 or 8 years. Don't you think that in these matters one can safely trust to the normal operation of the selfishness of mankind, especially the business section of it?

Mr. Halsall.—I don't follow the implication.

President.—What I mean is this. If it is made very much more worth while for business people to make artificial silk goods out of yarn by widening the difference between the duty on yarn and the duty on finished goods, I rather think that they would think twice before chucking an opportunity of that kind?

Mr. Halsall.—That is true.

President.—Therefore if we accepted your suggestion and raised the duty on artificial goods to 100 per cent. and left the duty on artificial silk yarn at 18$\frac{3}{4}$ per cent., might we not trust to the attractiveness from a business point of view of manufacturing artificial silk goods in order to bring about the change you had in view? My own feeling on the subject is that where a business man accepts an external taboo of that kind, he does so because for the time being it happens to coincide with his economic interest to a large extent. There are of course exceptions.

Mr. Halsall.—No doubt that is so. But still we feel that before anything in the nature of a prohibitive duty is imposed on artificial silk goods, these artificial restrictions should be removed.

Mr. Hutson.—In other words, it is not fair to place an enormous duty on the off-chance that some mills may change their minds and start manufacturing.

President.—You can make a lot of money on artificial silk goods if you get your yarn at 18$\frac{3}{4}$ per cent. and if the piece-goods bear a duty of 100 per cent. It is very difficult to resist the temptation. Really the importance of the argument against your suggestion is this, and that is what has worried me most about it. One of the chief sufferers in the country from the imports of cheap artificial silk goods is the handloom industry. There is no taboo as far as the handloom industry is concerned. They are still using artificial silk yarn. Supposing we accepted your suggestion, we cannot possibly apply that to handlooms?

Mr. Halsall.—You mean this "condition precendent"?

President.—Yes. If the handloom industry requires protection against the imported artificial silk goods, whatever the textile mill industry may do, we have to put a duty on the artificial silk goods for the sake of the handloom industry?

Mr. Hutson.—The artificial silk goods which are imported are not the types of goods which are made on handlooms. I have always understood that the advantages of the handloom are constant changes which are not suitable in the case of machinery. In that way, you weave a variegated article of artificial silk on the handloom, whereas the imported Japanese articles are woven continuously from start to finish. They are factory articles as distinct from handloom articles.

President.—But then you cannot make that distinction too rigid. I will tell you why. You know the better class of cotton goods woven in handlooms, say 60s and above, with special artistic designs. There used to be a great deal of demand for that kind of cotton goods. Now they come into contact with machine made cotton fancies. If I can get them very much cheaper, whatever artistic notions I have, I just surrender them, especially in a time like this when money is a very important consideration and you have to make it go a long way. If that happens in connection with cotton fancies—and these artificial silk goods compete with cotton fancies—I don't think I would accept your statement there because artificial silk goods, especially the better classes, compete in a very real way with handloom goods of higher classes.

Mr. Hutson.—I certainly do not deny that.

President.—If that is so, it is rather an important matter for the handloom industry. I can think of a centre, especially in South India, where the handlom weavers make very fine types of cotton cloth of high counts and since people of my family are used to buying saris from

handloom weavers of fine counts, I know precisely the kind of psychology with which they would face a problem of that kind.

Mr. Hutson.—My argument was rather directed towards showing that there was a future for factory made artificial silk goods as well as for handloom made artificial silk goods.

President.—I am going to discuss this question with people on the Bengal side. Supposing we found on investigation that the handloom industry was faced with a serious competition from artificial silk goods, then we have got to have the duty, whatever the textile mills may do. With regard to the question of differential duty raised in your reply to question 44, to the extent that subject has been dealt with in the trade agreement recently signed, to the extent that this question has been based on grounds of policy, it is outside our purview. We are concerned simply with the economic aspect of the question and from that point of view there are one or two things which I want to ask. You give us some figures of prices of comparable classes of Japanese and Lancashire goods. I think that you give them in Appendix V.

Mr. Hutson.—As you know it is very difficult to find absolutely comparable things.

President.—How recent are these prices? Take the whites?

Mr. Hutson.—The prices of Japanese whites are comparatively recent.

President.—Would you say that these are prices since the yen began to depreciate substantially? Do they reflect the depreciation of Japanese exchange or are they prices which have reference to the period just before?

Mr. Halsall.—I think most of them are prices of goods just before the substantial depreciation of exchange.

President.—The differences that you show between comparable classes to a large extent are the same as the differences we have noticed in quotations received from various other markets. But you don't think that these classes may be called as exactly comparable?

Mr. Hutson.—No.

Mr. Halsall.—There are very few classes which may be called comparable.

President.—The point to which I want to draw your attention is this: assuming for the moment that these are more or less comparable, I am talking particularly of whites where Japanese competition against the United Kingdom is getting particularly strong, there I find that with the exception of one the difference would be from 25 to 45 per cent. of the Japanese price. On the first three I find if you have a differential duty, that duty would be 35 per cent. of the Japanese price.

Mr. Halsall.—There is probably a difference of something between 15 and 25 per cent.

President.—In the second the difference you give is 45 per cent. of the Japanese—Rs. 4 and Rs. 5-14. The next is 12 per cent.: that is one of the lowest difference that I have seen. What I want to ask is, and that is one of the questions with which we are faced here, that in the trade agreement a general differential rate of 10 per cent. has been fixed: that of course is based entirely on considerations of high policy, taking a general view of India's commercial position, but here we have got to look at it from a narrower point of view. Suppose it is established that there is a case for a differential duty then unless that differential duty is somewhere about 20 to 25 per cent. it will make very little difference to the position of Lancashire in the Indian market against Japanese competition. What I feel about the present differential rate of duty is that it has made no difference to the position at all and I am justified in thinking that that 5 per cent. duty has been simply thrown away in the sense that you can have preference in one of two ways: either you increase the duty on non-British goods or reduce the duty on British goods. Supposing for example 20 per cent. is the normal rate you can make the duty on non-British goods 25 per cent. or on British goods 15

per cent. In either case the differential duty would apply. What I meant by saying that the 5 per cent. was thrown away is that if it was granted in the form of an addition to the normal duty then the consumer paid that extra 5 per cent. and the object which the Government and the Legislature had in view in placing that extra burden was not fulfilled at all: to the extent that it did not help Lancashire to withstand Japanese competition in the Indian market, to that extent this 5 per cent. burden placed on the consumer was a burden which has proved fruitless.

Mr. Hutson.—The other way to look at it is that the large volume of goods coming from Lancashire will not affect the Indian industry and the duty has been kept low on that account, the net result being the smaller cost to the consumer. The other side of the question would be that the addition of 5 per cent. has been insufficient against other countries.

President.—What has happened in the Indian market since 1930 is that various classes of goods which Lancashire has been exporting to this country have now been taken over by Japan and the only interpretation I can put on it is that as far as bleached goods are concerned this 5 per cent.—which is really over 6 per cent. now—has not served the purpose which the Government and the Legislature had in view.

Mr. Hutson.—I am afraid I was under the impression that the duty was increased in 1930 by 15 per cent. on British goods and an additional 5 per cent. on non-British goods to help the Indian industry.

President.—I am not concerned with the intention. What I am concerned with is that to the extent there was a duty of 5 per cent., one would have expected that the differential duty would have helped for whatever purpose that particular duty was instituted, but actually as the trade figures show that differential duty has not helped Lancashire in the least because the price difference has been much greater.

Mr. Halsall.—Except that had there not been that 5 per cent. things would have been worse.

President.—If you look at the margin of difference between Lancashire and Japanese prices, looking at it from a narrow economic point of view, if on a particular class of cloth the difference between Lancashire and Japanese prices is 25 per cent. and you give a differential duty of 25 per cent. you are doing nothing to bridge the gulf between the two for practical business purposes. If preference is to be given that preference must be effective: ineffective preference is useless preference. Preference is rather like protection. If you find that the difference between the Indian fair price and the realised price is 4 annas and you give protection of one anna, you simply throw it away. If you think my argument is right—I am only suggesting a point of view—then you have got to face this problem. If it is found on an examination of the price of comparable classes of Japanese and Lancashire goods in your main piece-goods markets in India that somewhere about 15 to 20 per cent. was required and a differential duty was fixed at 7½ per cent. or 10 per cent. it would be either an unnecessary burden on the consumer or an unnecessary surrender of Government revenues. There is one point in connection with that. I was leading up to that: when the Legislature introduced the differential system in regard to piece-goods in 1930 I should have thought that Lancashire would use the opportunity to improve its organisation and methods of working, but as far as the Eastern markets are concerned the Lancashire Cotton Corporation has definitely failed: things appear to be getting worse, and as a Tariff Board we have got to consider this question that whatever the trade relation between India and the United Kingdom may be we have no right to ask the Indian taxpayer and the Indian consumer to pay for the inefficiency of Lancashire.

Mr. Halsall.—I don't think you have. It is merely a question of putting a lower duty on goods which do not compete to the same extent as goods from other countries. If Lancashire does not take full advantage of that, that is Lancashire's affair.

President.—If a differential duty was applied under the Trade agreement at the rate of 10 per cent. then your answer would be all right. If a case is established for a differential duty then obviously from an economic point of view with which we are concerned that differential duty must fulfil its purpose. If it does not, either it is an unnecessary burden on the consumer or a surrender of Government revenues. As far as the Government of India and the Legislature are concerned there are various other considerations—political considerations, sentimental considerations, Imperial considerations—but we here as a humble body are not in a position to assess the money value of political or sentimental considerations: we have got to go on the hard basis of economical facts and therefore unless there is evidence of substantial reduction in the cost of distribution it seems to me that any differential rate of duty would not really help Lancashire looking at the way in which Japanese prices are coming down. If there is a reasonable possibility that Lancashire is not likely to benefit by it then we have got to consider the interests of the consumer and the taxpayer and then we would have to tell the Government and the Legislature that it is perfectly true that there is a big difference between Lancashire and Japanese goods; it is perfectly true that in certain classes of goods there is keen competition from Japan, but unless you are going to fix the differential duty as high as 20 per cent. you are going to achieve nothing by introducing this differential duty. If you don't achieve anything by this differential duty will you place an unnecessary burden on the consumer or will you ask the Finance Member to deprive Government of its revenues?

Mr. Hutson.—I think probably Lancashire produces some articles cheaper than anywhere else in the world: in certain specialised goods Lancashire is the cheapest and those classes are required here and it is unfair to penalise the consumer of these goods.

President.—Supposing in that case the proposal that we ultimately made was the normal *ad valorem* duty with a minimum specific duty, that specific duty would bear a relatively small proportion to the value of Lancashire goods. So that if the whole system of duty on piece-goods was based on the basis of a specific duty that would be to the advantage of Lancashire goods than an *ad valorem* duty.

Mr. Hutson.—On the better class of goods it would and that is what Lancashire is primarily concerned with.

President.—If on the top of that there is an *ad valorem* duty which is more or less for revenue purposes then the introduction of the differential element there is not from a practical point of view of very great importance.

Mr. Halsall.—Are you suggesting that a minimum duty should be fixed and then the duty on foreign goods should be increased to arrive at the differential duty?

President.—You fix the specific duty on a uniform rate on all classes of imports and then you have an *ad valorem* duty which, as I look at it for the time being, is purely a revenue arrangement because we do not want Government to lose any revenue. Since the specific duty is based on the difference between the Indian fair price and the realised price you cannot make any differentiation there because the specific duty would bear less hardly. Therefore the only place where it is possible to have the differential element is the *ad valorem* rate and if you are to have a differential rate you have got to make it as high as 20 per cent. It is rather an important point. The figures that you have given I don't consider are representative and I feel it may be dangerous to base one's recommendations on those figures. I should like to have a wider and more representative list of goods which are more nearly comparable than these.

Mr. Hutson.—We would endeavour to do that.

President.—There is just one other point that I want to ask you about. What precisely is your proposal about the specific duty on yarn?

Mr. Halsall.—We have answered that in reply to question 41.

President.—Your suggestion is that the rate should be reduced. If it is reduced to one anna per lb. up to what counts should the specific duty apply? What I mean is up to what limit would the one anna be in excess of the *ad valorem* rate? Take for example 60s; would that pay the specific duty or the *ad valorem* duty on the basis of the present duty?

Mr. Hutson.—Over 100s they still pay specific duty.

President.—If you put it on one anna basis?

Mr. Halsall.—60s to 80s would still pay, but it would be rather nearer 5 per cent.

President.—You would suggest a specific duty on yarn up to 80s?

Mr. Halsall.—That is a point which we have not considered. In the ordinary tariff the specific duty applies without any limit.

President.—It simply depends upon the price for the time being. We have had various proposals sent in to us about the specific duty on yarn. I have been discussing that question in detail with the Bombay Millowners' Association. You say the *ad valorem* rate is purely for revenue purposes, whereas the specific duty is for protective purposes. If it is understood on that basis, up to what count of yarn could the protective duty apply?

Mr. Halsall.—50s, as we have said on page 9 of our answers to the questionnaire. If I understand it rightly after certain counts the necessity for protective duty ceases to exist. Only the revenue duty applies.

President.—Simply the revenue duty applies?

Mr. Halsall.—Yes, after certain counts the revenue duty applies.

President.—What I was thinking of was this: when you suggested a duty of one anna, then the specific duty which is the protective part of the duty, would apply to considerably over 50s.

Mr. Halsall.—If it were practicable without any injury to the mills, we should certainly like to see the specific duties abolished on higher counts.

President.—Your proposals are one of the most moderate we have received. Would you care to think it over or shall I take this as your last word on the subject?

Mr. Halsall.—Yes, we will, in so far as we have been guilty of moderation in our proposals.

President.—I should like your Chamber to look at the question in relation to the needs of the handloom industry.

Mr. Halsall.—That is what we have been trying to do.

President.—Up to what counts of yarn do you think the protective part of the duty should apply?

Mr. Halsall.—Up to 50s.

President.—Can you tell me how your duty would apply to folded yarn? Up to what count this specific duty of one anna would apply in the case of folded yarn?

Mr. Halsall.—It would certainly apply to 84s on the prices I have here for July, 1932, taking the price of 20¼*d.*

President.—I think this is a subject that requires fuller consideration on the part of your Chamber.

Mr. Halsall.—In so far as we have been guilty of moderation.

President.—Whichever way you look at it.

Mr. Rahimtoola.—I should like to ask a few questions. In your letter dated 3rd August, 1932, enclosing your answers to the questionnaire, you say "that the criterion as to the extent or form of protection for the industry in the future must be only what is found necessary for efficiently and economically managed mills". I quite realise your difficulty in pointing out one or two mills. What I had in my mind was that we have received the cost of production of a number of mills which according to the Millowners' Association are fairly representative, *viz.*, not the first

class and not the weaker ones. I want to know whether in those mills the cost of production we are looking into would cover your definition of the efficiently and economically managed mills. That is why I asked you that question. I want to understand when the Tariff Board is enquiring into the question whether the view of the Bombay Chamber of Commerce has been taken into consideration. You base mainly the question of protection on this ground and therefore I consider it important.

Mr. Halsall.—I personally would not be prepared to say at the moment which of the mills are efficient and which are not.

Mr. Rahimtoola.—Can you say that the average mills run in Bombay are fairly efficiently and economically managed mills? Will that be a proposition you would like to consider?

Mr. Halsall.—I should not like to say I would accept it.

Mr. Rahimtoola.—Will you like to leave the matter in the hands of the Tariff Board?

Mr. Halsall.—We would.

Mr. Rahimtoola.—I want to know exactly what you mean by this statement, because the whole question of support to the protection by an influential body like yours depends upon your wording. Therefore I think the Board must make it clear in their minds what exactly is meant by this statement. If you leave the decision in our hands, it is for us to judge which are efficient and well managed mills. You would be prepared to accept that?

Mr. Halsall.—Yes.

Mr. Rahimtoola.—I will take question No. 44 about Imperial preference which has just been debated. You have based your recommendation I find on the ground of the consumer mainly and that your recommendation is of such a character that it would not hit the mill industry.

Mr. Halsall.—Yes.

Mr. Rahimtoola.—You say that the imports from the United Kingdom consist almost entirely of very fine and very wide cloths and then you go on to say that none of these goods can be produced economically in India. I suppose you have taken your main stand on this argument.

Mr. Halsall.—Yes.

Mr. Rahimtoola.—I find from the representation of the Millowners' Association that they are manufacturing at present fine goods and I want to know whether to that extent the Lancashire goods come into competition or not.

Mr. Halsall.—We think not.

Mr. Rahimtoola.—You say that none of these goods can be produced. As a matter of fact that point has been challenged by the Millowners' Association.

Mr. Halsall.—We say the production of such goods in India amounts to only 4 per cent.

Mr. Rahimtoola.—That percentage has also been substantially debated by the Millowners' Association who have argued that it is much more than 4 per cent. if you take the lb. basis. Mr. Hardy's figure was a little less than 4 per cent.

Mr. Halsall.—We based our statement on the statistics of the Government of India.

Mr. Rahimtoola.—These statistics have been supplied to us from the Millowners' Association which show considerable progress made by the Indian industry.

Mr. Halsall.—The latest Government of India's statistics up to the end of March, 1932, show that the production of yarns over 40s is still under 4 per cent.

Mr. Hutson.—The Millowners' Association are not asking so much for a protective duty as a creative duty.

President.—They are asking for both. The protection that doesn't create is hardly worth granting.

Mr. Hutson.—There is a considerable difference between the increase in production and the starting of an entirely new industry.

President.—You can't say it is an entirely new industry. I look at it this way. If a mill for example is producing to-day up to 70 per cent. of its capacity of fine goods which could be woven from Indian cotton say up to 40s, practically the whole of the market now supplied by imports would be, I suppose, above 40s for practical purposes. If I am able to get this mill a little more production mainly in respect of finer counts, it is able to increase its production by 80 or 85, it brings down its overhead and to that extent it helps the production of the whole range of the mill, you can't call it an entirely new industry.

Mr. Halsall.—You are there increasing the production in different directions.

Mr. Hutson.—Our answer is that with the 25 per cent. duty at present, which is really an enormous protective duty on an industry, the mills are only able to produce a very small proportion of the country's requirements of finer goods. Our opinion therefore is if you are going to raise this duty to an extent which will enable the manufacture of fine goods on a large scale, you will be giving the consumer so heavy a blow that he will not be compensated by the advantage to the mill industry. There must be a line somewhere.

BENGAL CHAMBER OF COMMERCE, CALCUTTA.

Evidence of Mr. J. S. T. RUSSELL, Mr. R. SCOTSON, Mr. G. L. ALLEN, Mr. W. KINLOCH, Mr. P. MARCOS, Mr. M. H. SMITH and Mr. J. A. EDWARDES EVANS, recorded at Calcutta on Wednesday, the 14th September, 1932.

Mr. Russell.—Before you commence the proceedings, I should like to inform you that we are here as representatives of the Chamber as a whole.

President.—You have sent in a letter to that effect. I think you first stated that your views represented the opinion of the Piece-goods Sub-Committee and later on you amplified the statement and said that they represented the views of the Chamber as a whole. That is the position?

Mr. Russell.—Yes.

President.—I should first like to get some idea of the constituency that your Chamber represents as regards the textile trade. Are you mainly representing the standpoint of importers?

Mr. Scotson.—Yes, European importers.

President.—Are you representing the interests of any wholesale merchants?

Mr. Scotson.—No.

President.—Are there any Indian manufacturers included in your Chamber?

Mr. Scotson.—No.

President.—None of the textile mills in Bengal for example are represented to any extent by your Chamber?

Mr. Scotson.—I don't think so to my knowledge.

Mr. Rahimtoola.—Are Messrs. Shaw Wallace and Company members of your Association?

Mr. Russell.—Yes.

Mr. Rahimtoola.—They are managing agents of one of the mills?

Mr. Scotson.—Yes. Whether they are members as representing the Bengal Nagpur Mills, I do not know. They might be members just for their export and import business.

Mr. Rahimtoola.—They are managing agents of a mill which exists in the Central Provinces?

Mr. Scotson.—That is right. There are several such firms who are members of the Chamber and who may be managing agents of Indian mills.

President.—We may take it then mainly that the views contained in your original memorandum and your replies to the questionnaire are the views of European importers of textile goods in Calcutta?

Mr. Scotson.—Yes.

President.—We may mainly take that to be the position?

Mr. Scotson.—Yes.

President.—Are the importing members of your Chamber interested in imports both from the United Kingdom and from Japan?

Mr. Scotson.—There may be individual cases.

President.—But generally?

Mr. Scotson.—But generally we are not so much interested in the Japanese business.

President.—It is mainly interests connected with trade and imports from the United Kingdom?

Mr. Scotson.—Yes, and the Continent.

President.—But of course the Continent is rather an insignificant factor?

Mr. Scotson.—It is now.

President.—There is one statement that you make—I think you make it both in your memorandum and in your replies—regarding the comparative quality of Lancashire goods and Indian goods in respect of higher counts?

Mr. Scotson.—Yes.

President.—That is to say, you refer us first to a statement that you made before the Textile Tariff Board in 1926 and then you go on to say that it practically represents the present opinion of the Chamber?

Mr. Scotson.—Yes.

President.—I think that is in your original memorandum?

Mr. Scotson.—Yes. May I just mention that we should like to amplify one or two of our replies. Should I do that first?

President.—What are the points?

Mr. Scotson.—The first case is this. On page 4 of the Questionnaire Question 1 (*xviii*) reads—" The fact that area for area fine quality is often cheaper than coarse cloth causes indirect competition between imported cloths and locally made coarse cloths ". We replied to this that " It is felt that this statement is still true ", but that requires a little amplification.

President.—I am glad you mention that point because that proposition has been causing us a tremendous lot of difficulty.

Mr. Scotson.—We should like to amplify that in this way. It is felt that this statement is still true provided that a comparison is made of cloths of the same reed and pick in a given area.

President.—That precisely is the qualification that we are going to suggest. As a matter of fact, I had better refer you as you are now on that point to a table on page 85 of Mr. Hardy's report. There of course the reference is to various classes of cloth having the same reed and pick?

Mr. Scotson.—Yes.

President.—And there you get the extraordinary position that a cloth which is woven of counts 38/38 for the same area has a slightly higher price than cloth woven of counts 70/110. I should say that if a cloth woven of counts 38/38 has sufficient reed and pick to provide me with the necessary cover, then if you had only the same reed and pick for 70/110, the cloth would be unwearable?

Mr. Scotson.—That is correct.

Mr. Russell.—We want to draw your attention to a statement which is reported to have been made by the Bengal National Chamber of Commerce before you.

President.—As a matter of fact, that statement has been made over and over again.

Mr. Scotson.—In addition to what we have said, there is another point and that is the low qualities of Bombay cloth are usually made of very much lower counts and lower reed and pick than English made goods of fine yarn.

President.—That is to say, if you take a Bombay cloth and a Lancashire cloth woven of yarn of the same counts, generally you find that the reed and pick are rather lower in the case of Bombay.

Mr. Scotson.—They are lower in number, and when we come to the fine goods position, the difference is greater. Therefore there can really be no competition between the coarse goods of Bombay and the fine goods of Lancashire because usually there is a very big difference in the price by reason of the additional threads.

President.—Except of course to the extent that in a period like this when the people's purchasing power has declined so very much, a cloth having the same fineness but providing less cover might be faced with indirect competition.

Mr. Scotson.—I think if you came down to that, the cloth would be too weak and extra threads would be required to make the cloth wearable.

President.—Can you give me a concrete instance of it?

Mr. Russell.—The only type that I can think of is Bombay dhotis 24s × 32s.

President.—Can you give me a higher count than that? Can you get me something in the region of 30s × 40s?

Mr. Scotson.—There is a standard cloth in Bombay.

President.—If you take that and compare it with the Lancashire cloth having the same fineness, what approximately is likely to be the difference in reed and pick?

Mr. Scotson.—Lancashire cloth also made of the same kind of yarn?

President.—That is to say 30s warp and 40s weft. It is very difficult to give precise figures, but from your experience what is likely to be the difference?

Mr. Russell.—The Bombay mill would be weaving to about 11 × 10, whereas Lancashire would not weave under 15 × 12.

President.—That may be taken approximately as the general difference?

Mr. Russell.—Yes.

President.—Is there any other point?

Mr. Scotson.—The Bengal National Chamber of Commerce has said "that the criterion of purchase, so far as the masses are concerned, would for a long time to come continue to be cheapness and not durability and as the cloth produced from finer counts was cheaper initially compared area for area, with coarser cloth the people would be attracted by this kind of cloth". This statement is only correct if a comparison is made with cloths of the same reed and pick per given area.

President.—Mr. Hardy is responsible for the statements which have been made to us by various people. He made his statement in a somewhat unqualified form?

Mr. Scotson.—As regards our reply to Question 39, we want to explain the reason why we suggest that a duty of not more than 11 per cent. should be assessed on goods of British manufacture.

President.—That is a point which I should like to raise later. That concerns one of the main points in this enquiry and I should like to have a fuller discussion.

Mr. Scotson.—In reply to Question 43, we say "Before dealing with the specific points raised in this question the Sub-Committee would invite the Tariff Board to consider the special case of imports of cotton and woollen goods embroidered with art silk up to 15 per cent. admixture." We should also like to invite the Tariff Board to consider the question whether it would not be possible to treat cotton goods manufactured in England but bleached or dyed or embroidered on the Continent as British goods. They are manufactured in Britain and sent to the Continent for the purpose of bleaching, dyeing or embroidering.

President.—It is mainly done in Switzerland?

Mr. Scotson.—There is a good deal of Dutch bleaching and a certain amount of dyeing.

Mr. Rahimtoola.—They are shipped from the Continent?

Mr. Scotson.—Yes. Certificates could be obtained from the firms in England. They could give the necessary certificates which might be countersigned by a public body such as the Chamber of Commerce.

President.—Can you tell me approximately the process to which cloth of that kind is subjected on the Continent, the cost and so on involved in that process? What percentage would that represent to the total cost?

Mr. Scotson.—It depends greatly on the quality of the work done.

President.—Is it possible to make a guess?

Mr. Scotson.—I would say it would be somewhere about 25 per cent. If you so wish, we will try and obtain full information on these points.

President.—Let me understand the point clearly. Taking the tariff as at present worked here, you have this lower rate of 25 per cent. applicable to goods of British manufacture. I take it that when a particular class of piece-goods is manufactured in Lancashire but finished on the Continent and shipped from a Continental port for tariff purposes out here the higher duty would be applicable?

Mr. Scotson.—Yes.

President.—Therefore your suggestion does not mean any variation from the existing tariff practice?

Mr. Scotson.—I want you to treat them as British goods.

President.—Although it is more than 25 per cent.?

Mr. Scotson.—We should like to qualify that statement.

President.—I understand where a preferential regime exists in a country like Canada, they apply a certain formula to indicate the minimum percentage of British labour and material which is included in an article which is liable to the preferential duty. My own impression is—I am speaking subject to correction—that 25 per cent. would be considered rather excessive?

Mr. Scotson.—In the case of some embroidered cloth, it would not be more than 10 per cent. In the case of dyeing, it may be less. We shall let you know the definite percentages later.

Mr. Rahimtoola.—Can you tell me what is the percentage of goods coming from the Continent as against those coming from Lancashire?

Mr. Scotson.—Do you want it for woollen goods?

Mr. Rahimtoola.—No, cotton goods.

Mr. Scotson.—About 4 per cent.

Mr. Rahimtoola.—It is about 5 per cent. of the other countries?

Mr. Scotson.—Yes. It is only a small fraction but it is a business which does not in any way interfere with the locally manufactured cloth.

President.—It is a rather important departure from the existing tariff arrangements, that is to say where differential duties are enforced, as for example, in steel and in cotton goods, my own idea is that the determination of the country of origin is very largely dependent upon its port. Would you introduce a certificate as proof of country of origin? That is what it would amount to.

Mr. Scotson.—Yes. We thought this was the time to put forward this question as the business does not interfere with indigenous cloths. I would further request that if the present Sea Customs Act does not allow them to be treated as goods made wholly in the United Kingdom then legislation should be introduced.

President.—I don't suppose it would be a question of legislation; it would be a question of changing the rules.

Mr. Russell.—There is one other aspect and that is the effect it may have on the subject of Imperial Preference which is involved—25 per cent. of the invoice value of materials represented by British Labour being given Imperial Preference.

President.—Where do you get this 25 per cent.: do you mean it is under the existing Act in England?

Mr. Wright.—Yes. It is the Abnormal Importations (Customs Duties) Act of 1931 and the Import Duties Act, 1932, to which Mr. Russell refers.

Mr. Scotson.—There is just another amplification we would like to make, and that is as regards the question of yarn. We have drawn up a table giving the comparison between *ex*-godown prices at which sales were effected during the first eight months of 1927 following the enquiry into the question of duties on yarn and the *ex*-godown prices during the same period in the present year. You will find it interesting (statement handed in).

President.—Practically all classes of imported yarn under the specific duty would bear a duty higher than 5 per cent.?

Mr. Scotson.—Yes.

President.—I got the impression on the prices of about two months ago that on 90s and above the specific duty was 5 per cent.: that 90s formed the dividing line.

Mr. Scotson.—These are the average sale prices of goods actually sold during the past seven months. The application of this revised level of duty on the lower prices now ruling has resulted in a considerable curtailment of business in imported yarns of counts which the Indian Mills are not in a position to produce though they are in considerable demand for the handloom industry. It will therefore be seen that this increase of duty has been of no benefit either to the Indian mills, Handloom Industry or the Government who have suffered a severe diminution of revenue in consequence. This remark applies to goods from the United Kingdom.

President.—These are all United Kingdom prices?

Mr. Scotson.—Yes.

President.—If you take corresponding Japanese prices I suppose at present they would be considerably lower?

Mr. Scotson.—Yes. As far as fine yarns are concerned I believe they have started marketing these now, but generally they have only been shipping up to 40s: with a limited business in 50s.

President.—Between 30s and 40s from Japan, and the bulk of it comes from China?

Mr. Scotson.—We deal with Japan separately. We say that so far as Japan is concerned it is an accepted fact that they are importing yarns which do compete with the Bombay mills. Although Indian mills cannot necessarily produce the full quantity of 40s required in this country as will be seen from the heavy imports from Japan, it is possible that a cheap sale of 40s would have the effect of depressing the price of not only 40s but also of 32s and 36s.

President.—Supposing it was found that it was necessary to give protection to Indian made yarn, say, up to 40s—we have been told by the Indian Central Cotton Committee that the kind of long staple cotton which is now grown in India is in respect of its length of staple, fineness, tensile strength and so on is capable of being used for the manufacture of yarn up to 40s—supposing we decided to drop this specific duty on yarn altogether, then of course there is danger of textile mills in India using in cloth of medium counts imported yarn rather than spinning the yarn themselves. The effect of that would be that there would be a corresponding reduction in the demand for Indian cotton in that particular year.

Mr. Scotson.—Yes.

President.—Supposing on those grounds it was decided that some amount of assistance should be granted in respect of yarn up to 40s, then it would be necessary for Customs purposes to provide a margin against errors in calculation and errors in determination of the number of counts of yarn. So that if it were necessary to protect yarns up to 40s you will have to fix the limit to 50s. As a matter of fact in cases where distinction had to be made—I am speaking of other industries—5 per cent. has been the margin provided but I find that in some cases 5 per cent. does not provide against the amount of error that might result in the Customs testing. So if it became necessary to extend it up to 50s, would that matter very much from your point of view?

Mr. Scotson.—Yes, as there is quite a good business in 44s and 44/40s dyed yarn which at the present time has been largely killed by the excessive duty at present in force.

President.—On that class of yarn at present the specific duty works out to very nearly 12 per cent.?

Mr. Scotson.—Even higher than 12 per cent. as will be seen from the Table submitted.

President.—This is a point which we raised before the Bombay Millowners' Association because we have had statements sent in to us by Provincial Governments and Directors of Industries throughout the country that the specific duty on yarn was imposing an unfair burden on the handloom industry. Therefore we made a suggestion to the Millowners' Association when we examined them that a limit of this kind might be fixed for the application of the specific duty and the suggestion that they have made is that the limit should be fixed at 60s.

Mr. Scotson.—I think it is far too high; it is absolutely outside the reasonable expectation of the Millowners' Association to produce for many years to come. I would probably put it at 44s.

Mr. Allen.—In testing 40s yarn a limit of 4 counts would be ample, *i.e.*, 44s. (Inaudible.)

President.—It is not merely errors in testing but indirect competition which we have got to take into account, so that it is not altogether a question of testing. But any way for the moment I will record that your suggestion is 44s?

Mr. Scotson.—Yes.

President.—The point on which I should like to get fuller explanation from you is the question of comparative quality. You have mentioned this question of reed and pick. Are there any other matters in respect of which there is a marked difference in quality or in materials between cloths made in India and in Lancashire of similar grades of counts and of similar fineness? If you looked at the appearance, take for example bordered grey cloth of say about 40s, if you had a cloth of that count made in Bombay and one imported from Lancashire is there anything in the appearance of the two kinds of cloth which would make any difference?

Mr. Russell.—There is definitely a difference.

President.—How do you express that?

Mr. Russell.—It is expressed in terms of loosely spun yarn.

President.—Is it a question of the feel of the thing?

Mr. Russell.—Yes. Your yarn has been loosely spun and therefore you get varying surface.

President.—That is rather a question of the skill of the labour?

Mr. Russell.—And possibly the grade of the cotton employed.

President.—Supposing a Bombay mill was using imported cotton?

Mr. Russell.—It would depend on the number of twists they gave to the yarn.

President.—If you gave the same number of twists and used imported cotton of the same quality then would there be a difference?

Mr. Russell.—There would be a difference in the finish.

President.—What precisely is the difference that arises?

Mr. Russell.—It is the feel of the cloth. I am speaking of plain unfinished cloth as such, that is to say it is not put through calendering or any other process: it will have a difference in the feel of the cloth which is the result of the inferior labour that has been used.

President.—Even if the yarn had the same number of twists do you think there would be a difference still?

Mr. Russell.—Yes, there would be difference in weaving. Another fact which is partly responsible for the feel is that you get reediness in the warps. When the warps are taken through the reeds they are generally placed two and two and if the units of each pair are too close together and a big gap is left between the pairs that results in reediness.

President.—That is really a question of skill and experience of the labour?

Mr. Russell.—Yes.

President.—Supposing that kind of cloth was calendered, finished but still grey, in that condition in the market would you still notice the difference perceptibly?

Mr. Russell.—The difference would be still there, specially the reediness.

Mr. Rahimtoola.—Would that be discovered by an ordinary layman?

Mr. Russell.—If your purchaser has the two cloths before him and the prices are the same he will certainly prefer the cloth which has the better cover.

President.—That is really a question of experience that the Indian labour has in the manufacture of finer classes of cloth?

Mr. Russell.—I would say it is so.

President.—In the earlier stages when they are more or less unused to this kind of thing obvious faults of this kind will occur, but supposing we decided to grant protection to the industry and the Indian industry had sufficient opportunities of making cloth of kinds between 30s and 40s for a sufficiently long period, it would be a reasonable thing to suppose that that kind of difficulty would disappear? That is to say if the quality of your cotton is the same, if the yarn is twisted in a proper manner, then the other difficulties which appear which are really a question of the experience of labour must necessarily disappear when it gets more experience.

Mr. Scotson.—That should be so.

President.—I should also like to get some idea of the comparative price levels of Indian goods, Lancashire goods and Japanese goods. What I am trying to do is this. We have been told not merely in Calcutta, but in other centres that the swadeshi movement has helped to a very considerable extent to increase the market for Indian made goods. I don't know whether you accept the proposition.

Mr. Scotson.—We do.

President.—There are two ways in which a movement based on popular feeling may help industries. It may simply increase the sales. It may at the same time increase the price in comparison with imported goods. From your experience what do you think has been precisely the effect of the swadeshi movement here? Has it made itself felt in both directions?

Mr. Scotson.—I think the Japanese importations due to the depreciation of yen have probably kept down prices in Bombay to a certain extent. If the competition due to depreciation had not taken place, I think the Bombay prices would have been higher. The upward movement of prices has been checked by the cheap importation from Japan.

President.—If you take the level of prices about 2 or 3 months ago, would you say that Indian made goods secured a slightly better price than the comparable classes of imported goods?

Mr. Scotson.—It is very difficult to make comparisons unless you have market rates on a particular day and you find out the relative difference between the Japanese quality and the Bombay quality. So far as the British goods from home are concerned, in most cases they are entirely different.

President.—I will tell you the practical point that I am trying to get at. I recognise the difficulty of finding some kind of Indian cloth which is exactly comparable to some kind of imported cloth. Therefore if we, as a Tariff Board—we are laymen in this matter—were asked to decide on that question, it would be almost impossible for us because statistics won't help us.

Mr. Scotson.—No.

President.—That is why I am asking people who are in the business—have you formed any instinctive impression which will be of great assistance. It is really the instinct that tells. What is your impression—have prices improved or is it simply a question of increasing the sales?

Mr. Scotson.—I say the prices of Bombay goods have definitely improved, but they would have improved to a greater extent had it not been for Japanese competition.

President.—From a tariff point of view the question is this: leaving out these emergency duties, there is a duty on Japanese goods of 31¼ per cent. and as the result of the swadeshi movement another 10 per cent. Altogether Indian goods have enjoyed protection to the extent of 40 per cent.

Mr. Scotson.—They have not enjoyed protection to the full extent during the last 4 or 5 months because of the depreciation of yen by 30 per cent.

President.—As a matter of fact the depreciation of yen didn't begin to affect prices till about May.

Mr. Scotson.—The effect was there. Forward business was done and although those goods didn't arrive till May—June the effect of the prices was there.

President.—If you examined quotations right up to the end of April, I don't know if there was any perceptible difference either on forward sales or current orders? Up to May I have not been able to find very much difference. I should say it was somewhere about May that you began to get a distinct reaction on the exchange fall.

Mr. Scotson.—That was the time when the full effect of yen was felt.

President.—I take it that the general impression of your Chamber is that to a certain extent prices have improved as the result of the swadeshi movement. I will not bind you down to an exact percentage.

Mr. Scotson.—Quite.

President.—Is it possible for you to tell us when people import directly from United Kingdom and Japan whether generally there is any difference in the terms on which importations are arranged, that is to say the commission or the credit?

Mr. Scotson.—They are usually the same. It is a question of 60 days or 90 days.

President.—What is the general practice?

Mr. Scotson.—A great deal of business would be done on 60 days credit. That is so far as transactions between Indian bazaar dealers and Manchester Merchants' Houses are concerned. I am not talking of the European firms, because they have usually a different mode of finance. It is

mostly D. P. I think the same terms are more or less applicable to Japan. I don't think they give more than 60 days. The question of return commission being reserved for buyers is entirely dependent on the individual firm on this side.

President.—In order to understand the decline which has taken place during the past 2 or 3 years in the imports from the United Kingdom as compared with the imports from Japan apart from questions connected with the swadeshi movement and so on, am I justified in thinking that all the advantage that Japan has may be estimated with reference to invoice price?

Mr. Scotson.—Yes.

President.—On that price factor you can settle the question more or less.

Mr. Scotson.—Yes.

President.—You make a statement in your original memorandum if you will look at paragraph 3. There is a reference you make to Ottawa. Does the Chamber want to press that point? I take it that point has lost its force. We have not received any official communication from the Government of India explaining the terms of the agreement. As far as I am able to understand the terms of it, the agreement leaves out of its scope cotton goods on which protective duties may be imposed.

Mr. Scotson.—Yes.

President.—There is one point to which I hope the Chamber would devote a little more attention than they have done in the replies to the questionnaire and that is question 40. With regard to the administration of specific duties on which I should very much like to have the benefit of your advice, because it is a question that is giving us an enormous amount of difficulty. I will tell you why. Supposing we accepted the case for protection either against all countries or against particular countries, it is no use granting protection unless protection is going to be effective; otherwise you are throwing away protection.

Mr. Scotson.—Yes.

President.—If you give your protection in the form of *ad valorem* duties purely with no specific duty as an alternative to the *ad valorem* duty, then everytime there is a fall in import price, the amount of protection which the Indian industry derives is reduced.

Mr. Scotson.—Yes.

President.—As regards Japan you refer to the reduction in internal cost. You refer also to the reduction in the external value of their currency. If, as the result, of both these cases you get a steady decline in the import prices, then the duty fixed on current prices of 25 per cent. may in the next year not give the industry the protection which we intend and at a time when the market is steadily falling, it is a factor which we have got to take into account.

Mr. Scotson.—Yes.

President.—I looked into the trade figures and they reveal very interesting results. At present, as you know, the minimum specific duty applies on account of the curious tariff definition we have, not merely on plain grey, but also to coloured woven. Take the year 1929-30 just the year before protective duties were introduced and take the figures for 1931-32 the latest year for which we have figures. If you take the imports from Japan, the imports from Japan have considerably declined in respect of plain grey to the extent of about 50 per cent. and imports have considerably declined in respect of coloured woven. These are the two things to which the minimum specific duty applies. If you take bleached, dyed, and printed, the position of dyed and printed remain practically stationary. There has been no decline. As regards bleached there is an increase of 100 to 200 per cent. As regards artificial silk there has been an increase of

200 to 300 per cent. as compared with 1929-30. In other words those goods to which only *ad valorem* duties have been applicable have shown no reduction as regards the imports from Japan.

Mr. Scotson.—The only reason why specific duties have proved so effective is that the amount of duty, *viz.*, Annas 3-6 is very excessive on to-day's level of values. If this rate of duty had been converted to a percentage under the *ad valorem* system it would have been just as effective as the specific duties.

President.—What do you take the duty free price of grey shirting? Take the c.i.f. price *plus* landing charges and exclude the duty.

Mr. Scotson.—From home?

President.—From Japan.

Mr. Scotson.—I should say somewhere Rs. 5-12-0 to Rs. 6.

President.—If you take the price about 2 months ago, I should say about 10 to 11 annas a lb.

Mr. Scotson.—Yes.

President.—31¼ per cent. on that is somewhere about 3 to 3-6 pies, so that there was not such a very big discrepancy between the specific duty and the *ad valorem* duty.

Mr. Scotson.—There was when the prices were high.

President.—When the prices were high, the *ad valorem* duty would operate.

Mr. Scotson.—Yes.

President.—I don't think that really explains it. My own idea is when you levy the specific duty on these classes of goods, the specific duty guarantees certain minimum of protection in spite of the large fall in prices.

Mr. Scotson.—If prices decline, the specific duty is naturally greater in terms of percentage.

President.—In March it was somewhere about As. 3-6.

Mr. Scotson.—Yes. The same remarks apply to yarn in the case of specific duty. So far as we are concerned, the point is if you give a specific duty which is based probably on the prices ruling at that particular time and you fix a specific duty on that basis, when these prices go down, that duty is automatically increased, thus enabling Indian mills to hold for higher prices than they otherwise would which is not for the benefit of the consumer.

President.—I quite understand your point of view. The position of yarn is different. Supposing for argument's sake we accept your suggestion that yarn above certain minimum should receive more protection, I would not for a moment ask for a specific duty. Then the necessity for a specific duty disappears altogether. You are concerned only with the consumer, unless you are incidentally concerned with Government.

Mr. Scotson.—Where a specific duty is given which is based on a certain price ruling at a particular time, we consider that it is not advantageous to the trade as a whole to allow that same duty to remain when prices have dropped considerably.

President.—The proportion becomes greater. The burden on the consumer would be greater. Supposing we accepted your suggestion and we decided to make that a protected article, then our primary concern is the interest of the industry and therefore as far as yarns of those classes are concerned, we must have a specific duty, but the yarn above those classes should have a simple *ad valorem* duty.

Mr. Scotson.—Having the interests of the industry at heart we contend you must have at the same time also the interests of the consumer as it would be unfair to protect the industry and fix a very high level of duty

irrespective of whether that amount of protection is really necessary to keep out the imported goods.

President.—That is the whole issue. Supposing we are convinced on an examination of costs and prices, that that particular amount is essential for protective purposes, then it is obviously necessary to guarantee that, not otherwise.

Mr. Scotson.—Yes.

President.—Yarn is rather on a different basis. What I am trying to do is this. This study of trade figures has convinced me that if you are going to give effective protection to the industry, that protection will have to be given in the form of a specific duty. I don't say entirely specific duty, but an *ad valorem* duty subject to a minimum specific duty. If that position is accepted, then it seems to me people of your experience in the trade should give the benefit of your opinion to the Tariff Board as regards the administration of the specific duty. If specific duty is essential in the interests of the country, then we have got to find a way of surmounting the administrative difficulties.

Mr. Scotson.—That is going to be very difficult without penalising many important sections of the trade.

President.—Supposing I suggested that we might apply a system of tariff which is now applicable to plain grey to all classes of piece-goods?

Mr. Scotson.—The difficulty there would be a question of light against heavy goods. The heavier the goods, the heavier would be the duty, and the lighter the goods, the lighter would be the duty.

President.—That is precisely what the industry wants.

Mr. Scotson.—Against that also it must be borne in mind there are many styles of piece-goods which would be seriously affected in so far as the goods are heavily filled or weighted in the finishing or dyeing processes. The duty on such goods would be exceedingly heavy and probably result in the business dying out altogether though in most cases they are not competitive with the Indian Mills, *e.g.*, certain styles of white shirtings, drills, also umbrella cloths, nainsooks, etc.

President.—That applies equally to colour woven goods to which tariff is now applicable and you are prepared to have it continued. You don't want any alteration in the present tariff definition. The objection that you raise against the application of the specific duty to bordered grey goods is an objection which applies to several kinds of coloured woven goods.

Mr. Russell.—Which coloured woven goods?

President.—Take cotton fancies.

Mr. Russell.—Coloured woven goods of special weave.

President.—Where prices cannot be entirely regulated?

Mr. Russell.—In dhutis, borders are expensive.

President.—If you take the commoner kinds of bordered dhutis are the borders so very expensive?

Mr. Russell.—5 to 7 per cent. of the total cost if they are $1\frac{1}{8}$ to $1\frac{1}{4}''$. I am rather thinking of the cost of dhuti borders as compared with the cost of the cloth itself.

President.—As far as the more expensive kinds are concerned, the specific duty would place a lighter burden.

Mr. Scotson.—Yes.

President.—As a matter of fact, the more finished and more skilled the amount of work required in a cloth is, the smaller is the burden of the specific duty based on a unit of weight. If you go on to the higher range of particular classes of cloth, you will find that the specific duty based on unit of weight would mean a smaller amount of burden on the consumer.

Mr. Scotson.—The duty I assume would be calculated on the weight?

President.—Yes, simply the present system—so much per cent. subject to a minimum of so many annas per lb. At the time when Mr. Hardy reported, the system was not in vogue. He recommended that for plain grey. Government extended it to coloured woven goods. The thing has worked without any very serious inconvenience to anybody.

Mr. Scotson.—For the simple reason that importations of such goods from United Kingdom are negligible.

President.—As far as plain grey is concerned, it killed the industry. If you can apply the minimum specific duty to coloured woven goods, I see no practical objection of a fundamental character to extending it to other classes. The man who is likely to suffer and whose interests have to be considered is the man who consumes the finer varieties and as far as he is concerned, his interests would be safeguarded.

Mr. Scotson.—Take for instance the umbrella cloth trade. It is a very big business. That is a cloth made from heavy yarns and heavily dyed. A specific duty on these goods would fall very heavily on these cloths and probably result in curtailing the business considerably and yet they cannot be made in India.

Mr. Rahimtoola.—Do I understand that the goods are not made in India at present?

Mr. Scotson.—There may be just one or two qualities started, but they are all low qualities.

Mr. Rahimtoola.—The complaint is that they have not made more because they are not able to compete.

Mr. Scotson.—One of the reasons why they are not making better qualities is that they have not the necessary finishing machines.

Mr. Rahimtoola.—It should be made worth while for them.

Mr. Scotson.—They should first show that they can produce the goods.

Mr. Rahimtoola.—They are putting a certain class on the market and they have given us to understand that they are handicapped.

Mr. Scotson.—So far as umbrella cloths are concerned, they are of very low quality and the Indian Mills are not in our opinion meeting any severe competition in the cloths they are producing.

President.—As far as umbrella cloth is concerned and more important class of cloth is concerned, it might raise difficulties. Supposing we had a special schedule of specific duties for these cloths? Umbrella cloth is described as dyed cloth.

Mr. Russell.—It is shewn as umbrella cloth.

President.—I suppose that they would fall generally into the category of dyed goods.

Mr. Scotson.—Yes.

President.—Supposing you had a duty of 3 annas for most classes of dyed goods and you had a different rate of duty for umbrella cloth?

Mr. Scotson.—It would probably detrimentally affect other goods of equal importance and one would require many such special schedules to deal with different classes of goods.

Mr. Allen.—Take for instance white shirtings.

President.—That would come under the category of bleached goods.

Mr. Allen.—You are talking at the moment only of dyed goods?

President.—Mr. Scotson, probably the point of view that I am trying to suggest would be cleared if I tried to explain the sort of basis on which tentatively I am personally considering the question of revising the scheme of protective tariff. We have asked for cost statements from the more important groups of mills in India. We have not had time to examine these costs. When we examine those costs, we make a fair allowance for depreciation, return on capital and so on. Then we estimate what we call the fair selling price for the Indian industry say per unit of cloth. Now

we compare that with the price that they are able to realise in competition with imported goods, and take the difference as the measure of protection. In calculating the costs of the Indian industry, supposing we based our examination on cloths of say medium counts which constitute the bulk of the classes which experience competition now. Take for instance 20s to 40s. We find out what should be regarded as a fair selling price of the Indian industry per lb. of various classes of cloth falling between 30s and 40s. We compare that with the price that they are able to realise and fix our duty that way. It is so many annas per lb. on different kinds of cloth falling within this margin of 30s to 40s. Supposing we found about 4 annas a lb. was what would be required as the measure of protection on the principal kinds of bleached cloth which are now made in Indian mills: and we applied that 4 annas to the whole range of bleached cloth, from your point of view, have you any objection?

Mr. Scotson.—We want to know how this is going to work out in practice. It is very difficult question bearing in mind the many different kinds of cloth which are coming under the classification of whites. It may seriously affect a particular trade which is not in competition with Indian mills but by reason of its weight would be liable to heavy duty.

President.—I should like your suggestion to be a little more constructive. If you agree with me that specific duties are essential for protection, then I want you to help me with constructive suggestions as to how this specific duty can be devised.

Mr. Allen.—I do not know whether we really agree to specific duties being levied.

Mr. Russell.—The question was shelved by Mr. Hardy.

President.—When Mr. Hardy enquired into it, the position was very different. He was not asked to consider the question of protection. We are directly concerned with protection. If on protective grounds, we find it essential, our point of view is different from that of Mr. Hardy.

Mr. Russell.—We have given that point very little consideration.

President.—Would you like to think it over?

Mr. Scotson.—If you would like us to give you any constructive suggestions, then we would like to be given a little time.

President.—Would the Chamber be prepared to give us a note within a fortnight?

Mr. Scotson.—It is a question we shall have to consider.

President.—If you are going to consider it in the Chamber, Mr. Russell, as you are Chairman of the Piece-goods Sub-Committee, I should like to tell you precisely the kind of points on which I should like information. The question is whether specific duties would give more stability to the protective scheme than *ad valorem* duties, that is to say in falling markets. That is the first point. The second point is if specific duties are essential for protective purposes, what is the most suitable basis on which specific duties can be levied. When I speak of basis I am thinking of two things. The first is are there likely to be insuperable administrative difficulties in respect of all or any important class of goods. The second point is what would be its effect from the revenue point of view. Are Government likely to suffer seriously any loss in revenue? The third point I should like you to consider is whether the extension of minimum specific duties to all classes of piece-goods would seriously disturb the relative incidence of the Customs duties on different classes of goods. Have I made myself clear?

Mr. Russell.—I should like you to amplify it a little.

President.—It is a point which Mr. Hardy discussed in some detail in his report. The point is that at present the *ad valorem* rate applies to different classes of bleached goods. If you apply the minimum specific duty of let us say 4 or 5 annas a lb., some classes of cloth which before used to bear a lower rate under the *ad valorem* system would now have to pay a higher

rate, because they would come under the specific duty, in comparison with some other class. Therefore in the market the relative incidence of the duty begins to be disturbed. Therefore recognised brands which have been in the market for many years might find that they are displaced by other brands which are benefited by the revision of tariff. If you can consider the scheme with reference to these two points of view, it will give us a complete view of the subject as far as I am able to understand it.

Mr. Allen.—Is your view that specific duties are the best based on the fact that grey shirtings and coloured woven goods have been practically stopped?

President.—Yes.

Mr. Allen.—I think that the reason why imports of grey shirtings and coloured woven goods have decreased so much is due to the fact that prices have fallen and the specific duty hits them so very much harder than it was intended to do when the duty was put on. That is one reason why the decrease is so much.

President.—Is it not putting the same point in another form? On account of the serious fall in prices the specific duty has given a correspondingly increased amount of protection. Protection has increased in correspondence with the fall in prices.

Mr. Allen.—It has given too much protection.

President.—That is a point for us to say.

Mr. Scotson.—That is what we say. When the duty of 3½ annas per lb. was introduced, they must have based at that time on the relative prices ruling at that particular time. If they thought that the necessary protection required was 3½ annas when prices declined to 50 per cent., obviously that same amount of protection is doubled and is absolutely unnecessary from the point of view of protecting the trade; otherwise the original 3½ annas was at the time it was introduced inadequate but the fact that it has been proved ample protection shows that there is no reason to give any higher protection than was intended. In the case of yarn, when the duty of 3½ annas was put on, it was considered that it was ample protection for the Indian mills. But to-day prices have come down considerably and yet the duty is in the vicinity of 14 per cent. If 10 per cent. was sufficient in 1927, it is all the more reason why 10 per cent. should be satisfactory to-day.

President.—As a matter of fact the real reason why we don't understand each other's point of view is that when you speak of the same duty, you are thinking of the percentage?

Mr. Scotson.—Yes.

President.—When you speak of the same duty you are thinking of the percentage but can't you thnik in terms of annas and pies? I find that 16 annas is the fair selling price required by the Indian industry and I find at present 12 annas is the price of corresponding class of imported cloth. I fix the measure of protection at 4 annas. What matters is, is that 4 annas secured to the industry?

Mr. Scotson.—When the price of articles declines from 16 annas to 8 annas the duty on the lower price is in effect equal to 8 annas on the original price.

President.—If as a result of exchange depreciation this price of 12 annas comes down to 8 annas that does not affect the fair selling price of the Indian industry; that remains where it was. Therefore on an *ad valorem* basis, supposing it was 25 per cent., where a man was getting 4 annas he would get 2½ annas.

Mr. Scotson.—Is not that to the benefit of the consumer?

President.—If on 16 annas we find that the Bombay industry can get a return of 4 per cent. on its capital would you consider it excessive?

Mr. Scotson.—No.

President.—Supposing in this investigation we make reasonable allowance for economies which the Bombay mills can make and having based our estimate of costs on that basis we find that the protection that they require is 16 annas and there is a sudden drop as a result of the exchange factor, you say they wont get the benefit.

Mr. Scotson.—At the present moment we are dealing with the exchange at par.

President.—Leave exchange out. Supposing Japan is able to reduce its costs as a result of operating on a very large scale in respect of purchases and sales; theirs is a very highly rationalised industry, supposing as a result of that costs are steadily coming down, you cannot expect Bombay to reduce its costs down in just the same scale? Even Lancashire can't do it. If that happens what are we to do?

Mr. Scotson.—That can't be continuous. Furthermore the effect of such duties would not be in the interests of the consumers as it would not encourage mills to keep their mills up-to-date with a view to reducing costs.

President.—That is more continuous than the exchange. That has been happening all through the past five years.

Mr. Scotson.—It would result in the survival of the fittest.

Mr. Rahimtoola.—The first point is whether any protection should be granted to the industry.

Mr. Scotson.—We feel that the industry should have protection where protection is found necessary. It should be on a scale elastic enough to provide for a rise or fall in prices and not a fixed rate irrespective of whether the price is high or low.

President.—This is a method of protection which we have more than once considered; it has been very difficult to devise a practical workable scheme on that basis. Personally I admit in theory it is a much more satisfactory thing to have a sliding scale, that is to say when the prices are higher the industry does not make the necessary surplus but when the prices are low they do not make undue losses. If you can devise a sliding scale of duties on that basis I should like to consider the matter again. My own feeling is that it would be very difficult from a practical point of view to work out a scheme of that kind. I don't know if you have seen the scheme that we put up to Government with reference to the emergency enquiry. What we tried to do was this with regard to the exchange question: we said that Government should alter the tariff valuation of Japanese piece-goods from time to time with reference to the variation in exchange because it is a matter of public knowledge: you know the rate from time to time.

Mr. Scotson.—The difficulty there would be that the buyer would not know what rate to calculate at the time of doing the business.

President.—That is the objection to a sliding scale because it provides a tremendous lot of uncertainty. As far as these matters are concerned stability is most important both for the industry and for the trade. Any way if you can give me your views on these points it will help me a great deal.

Mr. Scotson.—I will.

President.—I now come to a rather important point and that is really the main point in your representation and in your replies: that is your suggestion that only the revenue duty should apply to imports from the United Kingdom.

Mr. Scotson.—Yes.

President.—That is to say your point of view in this matter is different from the point of view of the Bombay Chamber of Commerce. They ask for a differential duty but they do not suggest that only the revenue duty

should apply, but your suggestion is that the protective duty should not apply?

Mr. Scotson.—We have recommended a duty of not more than 11 per cent. on British manufactures; that is really the utmost that can be recognised as being called for by the Bombay mills. In 1922 the duty was raised from 11 to 15 per cent. but was defeated in the Legislature and reduced to 11 per cent. the following month.

Mr. Boag.—The question of protection was not up then. The duty was put up to 11 per cent. simply in order to raise revenue. There was no question of protecting the industry then.

Mr. Scotson.—That is so. However, after the Tariff Board sat in 1926, Government stated that they could not accept the recommendation of the majority of the Board and definitely stated that in their opinion a case had not been established for a general increase in the duty as a measure of protection. Again in 1930, the Commerce Member definitely stated that the additional protection was given as a purely temporary measure dictated by the necessities of the moment and not as the final decision of a considered policy. On these ground, and from our own actual experience we consider that 11 per cent. is a reasonable figure so far as it relates to goods from the United Kingdom.

President.—Would you be prepared to accept this: Supposing on an examination of the costs of the Indian industry now we found that not 11 per cent. but something higher than that was necessary then it would be a question of our finding a fact as against your fact?

Mr. Scotson.—If it was proved that a somewhat greater protection than 11 per cent. was required then we should have no alternative but to agree.

President.—When I read your representation the impression that I gathered was that you would like the duties on goods imported from the United Kingdom to be placed entirely on a revenue basis. Now, in the tariff schedule there is a definite section devoted to protective duties that is part VII of the tariff schedule. The reason of that is that any duty which is included in part VII cannot be altered according to the budget requirements of Government from year to year. Supposing we accepted your suggestion of granting protection for three years, although it is 11 per cent. or 15 per cent. the moment it is included in part VII financial exigencies wont affect it. That gives stability to the industry.

Mr. Scotson.—That is true.

President.—Would you object to the inclusion of the duty in the protective part of the schedule, that is to say it would not vary during the protective period?

Mr. Allen.—We would not object to 11 per cent. being classified as a protective duty: what we really feel is that 11 per cent. is a big enough difference between our imports and Bombay.

President.—When you are speaking of your imports what kind of yarn are you thinking of. What is the minimum count? May I take it that there is hardly any import from the United Kingdom up to 40s?

Mr. Scotson.—Hardly any under 40s.

President.—That can be taken as representative?

Mr. Scotson.—Yes. Our point is this. We would accept 11 per cent. or such other additional protection which you may find that the trade required to be classified in that particular section as protective duty, but any increase on that by way of surcharge for revenue purposes should be counterbalanced by an excise duty on Indian goods.

President.—That I might take as the considered view of the Chamber?

Mr. Scotson.—Yes.

President.—With regard to 30s and 40s it is perfectly true at present that hardly any imports from the United Kingdom come which is below

40s. Supposing we fixed a duty based upon the cost of the Indian industry of making 30s×40s and comparing their cost with the price they are able to realise; we have got to apply that duty on imports from all countries. It is perfectly true that no imports below 40s now come from the United Kingdom but the duty which is now applicable to 30s and 40s must be applicable to goods coming from all countries. My point is this. If you look at page 40 of the Tariff Board Report of 1927, they write as follows:—

> "It was, for example, not until we were well on with our enquiry that we discovered that according to the most reliable estimate we were able to obtain, namely, that of the Manchester Chamber of Commerce, cloth containing warp or weft of counts between 30s and 40s forms about 40 to 45 per cent. of the total export cloth from the United Kingdom to this country."

Would you accept that?

Mr. Scotson.—In 1927 it was a correct statement.

President.—Therefore the ground on which I would ask for the application of the duty relating to 30s and 40s from the United Kingdom is that unless this duty is enforced on all countries United Kingdom would get a benefit over Japan which will enable them to increase their imports of 30s and 40s on somewhat like the scale which prevailed four or five years ago. That was the ground on which the rate was based.

Mr. Allen.—In these 30s to 40s the highest predominating figure was 38s.

President.—As a matter of fact the statement that Mr. Hardy makes in his report is rather inconsistent with what you say. We would rather say it is mostly 40s.

Mr. Scotson.—I should like to get the figures out for you.

President.—I should be grateful if you would. If you accept the statement as it stands then my own conclusion is that in dhoties in 1925-26. 30s to 40s must have formed 80 per cent. of the imports from the United Kingdom.

Mr. Scotson.—I will get out the figures for you.

President.—Now I come to the question of artificial silk. That is the suggestion you make in reply to question 43. What you are suggesting there is if artificial silk is used to the extent of 15 per cent., then the goods should be liable to revenue duty.

Mr. Scotson.—Revenue duty on woollen goods.

President.—Or cotton goods as the case may be.

Mr. Scotson.—Yes.

President.—That is to say the duty applicable to goods made of the material which forms the predominant part.

Mr. Scotson.—Yes.

President.—The difficulty which I feel with regard to that suggestion is supposing we suggest a duty slightly higher than the normal revenue duty to cotton piecegoods. Let us take it that after next year the normal revenue duty is going to be 11 per cent. Supposing we find that a duty of 17 per cent. is required for cotton piecegoods for argument's sake?

Mr. Scotson.—Yes.

President.—If a man wants to get his cotton piecegoods into the country at 11 per cent., all that he has to do is to use 5 per cent. of artificial silk.

Mr. Scotson.—That is exactly what is happening.

President.—Supposing the revenue duty and the protective duty on piecegoods were both 11 per cent., then there would be no difficulty.

Mr. Scotson.—Sometime ago cotton and artificial silk goods, provided the amount of artificial silk did not exceed $\frac{1}{8}$th of the area, were admitted at the rate ruling for cotton goods.

President.—If it happens that the general rate of duty applicable to piecegoods is higher than the revenue duty, if that happens, then the only thing that we can do with regard to this matter is that as far as cotton is concerned, the duty applicable to this class of artificial silk must not be higher than the duty on cotton piecegoods.

Mr. Scotson.—Yes. Where the artificial silk is in the form of ornamentation either in the way of stripes or borders or a floral designs.

President.—If artificial silk forms part of the warp or weft?

Mr. Scotson.—Where it is only an ornamentation of the cloth.

President.—Is ornamentation sufficiently specific for customs purposes?

Mr. Scotson.—Yes. It is either embroidery or woven stripes, there being so many stripes across the full width or embroidered.

President.—That definition would give rise to a lot of dispute.

Mr. Scotson.—Not, where it is definitely ornamentation.

President.—I should like to think over the point, but my reading at present is that whatever duty is applicable to cotton piecegoods would have to apply to this. The only concession that one can think of is this: supposing on artificial silk goods from Japan which come into competition it was necessary to levy 50 per cent., then this class of goods would not bear 50 per cent. but would bear only the lower duty that was applicable to cotton piecegoods. Anything lower than the duty on cotton piecegoods, I think would be somewhat difficult.

Mr. Allen.—Except as regards embroidery goods.

President.—If it is embroidery, the Customs people can accept. I should like to take up this question with some senior Collector of Customs. Subject to that my present inclination is to consider it on the basis of duty applicable to cotton piecegoods.

Mr. Scotson.—It is a very specialised trade.

President.—So far as woollen goods are concerned, there is only the normal rate of duty to be considered.

Mr. Allen.—On embroidery woollen goods it is $34\frac{3}{8}$ per cent.

President.—It is considered an artificial mixture. That is a point we will consider.

Mr. Scotson.—In connection with that, telegrams have been exchanged between Mr. George Morgan, C.I.E., M.L.A., and the Chamber, as follows:—

Telegram dated Calcutta, 10th September 1932.

From—The Bengal Chamber of Commerce.

To—George Morgan Esq., C.I.E., M.L.A.

Piecegoods Sub-Committee understand it is possible to import under Serial No. 125 of Schedule II of Customs Tariff at $34\frac{3}{8}$ per cent. *ad valorem* cotton goods containing a fractional admixture of artificial silk thus avoiding higher duty of 50 per cent. Has Central Board of Revenue considered the possibilities of evasion afforded under Serial No. 125 in respect of goods which are not *boná fide* admixtures. Please wire.

Telegram dated Simla, 12th September 1932.

From—George Morgan Esq., C.I.E., M.L.A.

To—The Bengal Chamber of Commerce.

Your telegram Piecegoods point was considered but could not be dealt with by notification under Section three Tariff Act which raised duty on cotton piecegoods. Situation being watched with view to legislation if necessary. Legislation in any case inevitable January-March session after Tariff Board Reports.

President.—Would you mind sending us copies of these notes that you placed before us this morning?

Mr. Scotson.—Yes.

President.—There is only one other point I want to ask you. Has there been any increase in Japanese c.i.f. prices during the past 3 or 4 months?

Mr. Scotson.—Yes.

President.—A marked increase?

Mr. Scotson.—Just the same as English goods.

President.—That we noticed. In the June prices that we got from the Calcutta Custom House, there has been very considerable increase in Lancashire goods.

Mr. Scotson.—Yes.

President.—I didn't notice that in Japanese prices 6 weeks or 2 months ago. Yesterday we were given figures by the Marwari Chamber of Commerce that the price has gone up in the course of 2 months from 4·5 to 6·74 yen c.i.f.

Mr. Scotson.—It seems on the top side.

President.—That is more than can be explained by the cotton price. If cotton goes up 50 per cent., you have a rise in the price of piecegoods of 25 per cent.

Mr. Marcos.—There is also another thing to be considered. The depreciation of the yen works now the other way about.

President.—How do you mean?

Mr. Marcos.—Last year they had the higher rate of exchange in order to buy cotton. This year not only the cotton has gone up, but their yen is down.

President.—They have to pay more yen for cotton.

Mr. Marcos.—The two together put up the price.

President.—That of course is a controversial point. I do not know how much they are going to buy.

Mr. Rahimtoola.—We have received a representation also through you from the Calcutta Import Trade Association. That deals entirely with piecegoods.

Mr. Scotson.—The Chairman of the Import Trade Association is here.

Mr. Rahimtoola.—We have received a letter that you are supporting the views of the Bengal Chamber of Commerce.

Mr. Edwardes Evans.—Yes.

Mr. Rahimtoola.—You have told us that there are 3 or 4 members of your Association who happen to be Managing Agents of some of the mills here and I take it that when this is representing the Bengal Chamber of Commerce, they have had some voice in recommending this to the Tariff Board.

Mr. Wright.—I don't think they will be speaking on behalf of those mills.

Mr. Rahimtoola.—I am not talking about the mills. I am simply taking into consideration that when a representation is forwarded to a body like the Tariff Board or other Association, members might happen to be interested in the question either as manufacturers or as importers and I take it when a representation is sent from a body of that character, that both points of view are more or less represented in this. That is why I raised the first question whether it is only one side which is represented.

Mr. Russell.—We are speaking on behalf of the Chamber speaking from the point of view of importers pure and simple.

Mr. Rahimtoola.—In spite of the fact that you have manufacturers amongst you?

Mr. Russell.—We may have members in the Chamber who are the Managing Agents of Mills. As such they don't bring any interest to bear upon the views of the Chamber.

Mr. Rahimtoola.—I am simply asking you about the measure of protection that you have discussed here and it occurred to me whether the protection that you have recommended for 3 years is a matter which you have seriously considered to be an adequate protection to the industry.

Mr. Scotson.—We consider that as a Chamber and not on behalf of any mill. 3 years is a sufficient time for the effect of the increase in duty to make itself felt.

Mr. Rahimtoola.—You know one of the objects of granting protection is not only to maintain the existing mills in this country, but the protection must be of such a nature as to give an impetus to the industry for its development with the idea that there would be a number of mills started in India and may make India self-supporting as far as cloth is concerned. That can't be done unless a minimum protection is given and for a fixed number of years. Therefore I want to know whether this aspect was considered when you mentioned a period of 3 years.

Mr. Scotson.—We had considered that. What we considered was 3 years. If the Tariff Board considered a period of 4 or 5 years was necessary, we would have no objection.

Mr. Rahimtoola.—You are not seriously sticking to the period of 3 years.

Mr. Russell.—From our point of view given the established principle that protection is to be granted, it is our considered opinion that it should be given for a definite period.

Mr. Rahimtoola.—The second point that you have mentioned is you have drawn a distinction between the British goods and non-British goods in answer to question 39 and you have mentioned the difference is 29 per cent. between the two. I would like to know whether you have considered seriously that this should be the adequate protection for the British imports or this is the general idea that you have got.

Mr. Scotson.—Our view is based to a very great extent on the fact that when the duty was 31¼ per cent. it did not prevent the Japanese from competing with the Indian mills and therefore we considered that they were entitled to additional protection based on the Yen at par.

Mr. Rahimtoola.—My point is this. The present difference, before the *ad interim* report, was 6¼ per cent. between the two duties British and non-British.

Mr. Scotson.—Yes.

Mr. Rahimtoola.—Your proposal now is that the difference should be raised to 29 per cent.

Mr. Scotson.—Yes. The reason for this is that we contend that there are practically no British goods coming in competition.

Mr. Rahimtoola.—You mean with the Indian mills?

Mr. Scotson.—Yes. Therefore we consider that only the minimum protection against British goods is required. In the case of Japanese goods, the position is entirely different as they are competing with Bombay in practically every class. For that reason, irrespective of what the difference is between the duties on British and non-British goods, we consider that 40 per cent. would be required to give necessary protection for the Bombay mills.

Mr. Rahimtoola.—As you have worked out a difference of 29 per cent., I want to know whether the Chamber's view is that there should be a differential system of duties as between Japan and United Kingdom. That is the only point I want to get at?

Mr. Scotson.—We based our ideas not with the view to obtaining preference for goods from the United Kingdom but from the point of view of

competition with the Indian mills. As we have already stated British goods do not now compete with Indian made cloths except to a very small extent whereas in the case of Japanese goods there is serious competition.

Mr. Rahimtoola.—Should I put it this way? In order to make the differential duty effective between Japan and Lancashire, 29 per cent. difference would meet the case?

Mr. Scotson.—40 per cent. is not for the assistance of Lancashire; it is for the assistance of Bombay.

Mr. Rahimtoola.—Having regard to the fact that 11 per cent. and 40 per cent. are the figures which you have left to the Tariff Board for adjustment, the point I want to get at is the effective protection which the differential duties would involve. You are talking of the consumer's point of view when you say that a certain class of goods coming from Britain is not competing with Indian goods manufactured to-day in India except to the extent of 4 per cent. which you have said?

Mr. Scotson.—Yes.

Mr. Rahimtoola.—That is the reason why you want a lower duty on British goods rather than an equal duty on all classes of goods coming into India?

Mr. Scotson.—Yes.

Mr. Rahimtoola.—In arriving at the figures, the question you have taken into account is the competition of British against Indian goods and not British goods against Japanese?

Mr. Scotson.—Yes.

Mr. Rahimtoola.—You have raised at the beginning of the discussion the point that certain classes of goods coming from the Continent should be classed as British goods.

Mr. Scotson.—Yes.

Mr. Rahimtoola.—Is this the first time that you have raised this issue?

Mr. Scotson.—It is because we have felt that the Tariff Board which is now sitting is going to lay down the policy which continue for some time. We feel also that it might assist a trade which is not in competition with the Indian mills. Therefore we think that the present time is the most opportune time.

Mr. Rahimtoola.—I thought that you had raised this proposal in view of the increase in the duty to 50 per cent. on non-British goods. This new duty I thought must have hit the British goods coming indirectly through the Continent?

Mr. Scotson.—Yes.

Mr. Rahimtoola.—May I take it that it was how your proposal emanated?

Mr. Scotson.—Partly and also we considered that they should be put on more favourable basis seeing that goods are manufactured in England and only a very small portion of the manufactures takes place outside of England.

Mr. Rahimtoola.—I should like to understand about the cotton goods manufactured in India above 40s. You have told us that it is only 4 per cent. that is at present manufactured. These figures I take it, as you have yourself mentioned, have been obtained from the Director of Commercial Intelligence and Statistics. I am only asking you with reference to the point raised in your memorandum (see page 3). Let me begin by putting a question about the goods that are turned out in India—never mind about the percentage. What do you think of the quality of the finer classes of Indian goods that have come into the market?

Mr. Scotson.—Comparing them with the British goods?

Mr. Rahimtoola.—Not exactly comparing with British goods because they would not be so fine. But I want to know whether you think that they have a future or not?

Mr. Scotson.—I have not seen their very fine goods. As regards their white shirtings I should say that there are possibilities of that trade.

Mr. Rahimtoola.—I am asking you in regard to the four points that you have raised. I shall take them one by one. You say "In our opinion further protection would increase the cost to the consumer without materially assisting Bombay mills in capturing part of Lancashire's trade in the finer qualities which owing to various factors climate, labour, raw material and equipment cannot be produced in India". The first point is climate. I suppose there you are considering the question of humidity?

Mr. Scotson.—Yes.

Mr. Rahimtoola.—I understand that certain mills here have taken steps to get rid of this difficulty or the defect as you have called it.

Mr. Allen.—It is not so successful as the natural thing.

Mr. Rahimtoola.—I want to know whether you have seen it?

Mr. Allen.—Yes.

Mr. Rahimtoola.—You still think that it is defective?

Mr. Allen.—That is the best that can be done outside the normal atmosphere.

Mr. Rahimtoola.—The Board has had an opportunity of seeing the mill erected with that system. I think it is very satisfactory.

Mr. Allen.—Yes. As far as artificial kinds of development are concerned, but the point of view of labour it is not satisfactory. It is not a healthy condition.

Mr. Scotson.—I do not like to say that without proper examination but I shall make a note of it.

Mr. Rahimtoola.—As regards the raw material, I take it that most of the mills are now using a large amount of imported cotton?

Mr. Scotson.—Yes.

Mr. Rahimtoola.—They are using Egyptian, African and American cotton.

Mr. Scotson.—But not much.

Mr. Rahimtoola.—The figures this year are very high. It is nearly 470,000 bales. Out of that I should say about a third came from America and the rest partly from Egypt and partly from Uganda.

Mr. Scotson.—A lot of that is not necessarily for yarn of 40s. A lot of it is used 32s. In order to get the same appearance as that of Lancashire goods, they are making 32s from the imported Uganda cotton.

President.—We put that question to the Cotton Committee. Out of the total imports of cotton last year (1931-32) you might take about a third as representing more or less cotton below one inch, from which you can make up to 35s. I should say a little more than half of it is cotton out of which you can make higher counts than 40s which ranged from 1″ and $1\frac{1}{16}$″ to somewhere about $1\frac{1}{4}$″. One third was Egyptian from which you could spin very high counts of yarn.

Mr. Allen.—I does not bring it up to more than 4·1 per cent.

President.—As a matter of fact if you take the total quantity of yarn spun in India last year of counts above 40s, that really represents also the consumption of imported yarn of quality higher than 40s. The two things must give the same results excepting allowance for stocks of imported cotton.

Mr. Rahimtoola.—I was not looking at the percentage figure. I am only drawing your attention to the defects that you have mentioned in the representation that you have submitted. The third point is equipment. I should like to know what was in your mind when you said that. Is it the machinery for fine counts that you are thinking of?

Mr. Allen.—Yes.

Mr. Rahimtoola.—If the industry gets sufficient protection, it can instal the machinery.

Mr. Allen.—It is all going to add very much to the expense.

Mr. Rahimtoola.—If India is to be made self sufficient in respect of goods she is consuming at present, the cost of production will have to be taken into consideration.

Mr. Allen.—Our point really is that the scheme which involves new machinery and humidifiers involves extra expense and even with humidifiers the labour here will not probably be as healthy as it is at home.

Mr. Rahimtoola.—Are you referring to housing conditions of labour?

Mr. Allen.—Due to the climate generally the man here is not as efficient a worker as the Lacashire spinner or weaver. Then as regards the raw material, there is the question of freight. In view of the extra price that has got to be paid for this we don't think that the Bombay mills would capture a large part of the fine trade. Where they have suitable cotton at their door for the coarse trade they ought to be able to hold their own. If they cannot hold their own in coarse counts, they won't be able to do much in fine counts made from imported cotton.

Mr. Rahimtoola.—I want to know why they cannot do that with imported cotton.

Mr. Allen.—They have not got the cotton at their door.

Mr. Rahimtoola.—That cotton is not sufficient for finer counts. One of the most important recommendations of the last Tariff Board is that the Bombay mills should go in for higher counts.

Mr. Scotson.—That is to hold their own against Ahmedabad.

Mr. Rahimtoola.—Not only to meet the competition against Ahmedabad but to cater for the taste of the people and compete against imports.

Mr. Scotson.—Our point is that it will increase their price.

Mr. Rahimtoola.—I quite agree. If India needs a large amount of fine goods, then there should be no difficulty in manufacturing them in this country provided adequate protection is given for a number of years.

Mr. Allen.—I agree, at a price.

Mr. Rahimtoola.—Yes, but we must look to the future development of the Industry.

Mr. Allen.—It will be at the expense of the consumer.

Mr. Rahimtoola.—The consumer must suffer for the time being for the benefit of the country as a whole. In the case of every protection that you give for a number of years, the consumer is bound to be penalised to that extent?

Mr. Scotson.—Yes.

Mr. Rahimtoola.—It is only the internal competition that can make the price come down if the demand is less than the supply.

Mr. Scotson.—Yes.

Mr. Rahimtoola.—At the end of page 3 of your memorandum you say that the present protection of 15 per cent. on British manufactured goods had its effect. I want to know whether this statement requires any qualification or not?

Mr. Allen.—We have admitted 11 per cent.

Mr. Rahimtoola.—That is not the point. I am not going in to the question of percentage now. I am talking of the point of view that you have raised namely that the 15 per cent. protection has been a success. Probably you are taking into consideration the import figures. As British imports have fallen you say that the scheme has been a success. You say

" As one of the reasons for applying, to goods of British manufacture, a lower rate of duty, namely 15 per cent., he pointed out that in the Government's view nothing in excess of that rate was needed by way of protection, experience having sufficiently shown that this was the case " I want to know whether they agree with this view. What is the position to-day?

Mr. Allen.—What I said before. We think that 11 per cent. is enough.

Mr. Russell.—It holds good to-day.

Mr. Rahimtoola.—I was wondering whether you took in that connection the question of the swadeshi movement and the boycott of British goods that was in this country sometime back. You are I think relying more or less on the import figures for saying that as the imports have been replaced to a large extent by Indian, the scheme of protection has been successful.

Mr. Marcos.—Do you mean to say that but for the swadeshi movement the importations would have been larger?

Mr. Rahimtoola.—I was asking you whether that was the point.

Mr. Scotson.—We think that probably the boycott has assisted Indian mills to increase their production but the duty has been very effective. That is also one of the reasons why Bombay has gained at the expense of Britain.

Mr. Russell.—In our opinion neither we nor anybody else could analyse these two factors sufficiently and say that so much is due to one and so much due to another.

Mr. Rahimtoola.—From a lay-man's point of view I may say this. In the first non-co-operation movement during Lord Irwin's time, when I was in the Legislative Assembly, feeling throughout the country was very keen and the people would not touch British goods at all for any price. Even now we have been told by one Association that there are large quantities of British goods sealed and not allowed to be sold.

Mr. Scotson.—The boycott movement was at its worst in 1930 and part of 1931. This year there has been no boycott. The imports from 1931 would probably give one a good idea.

Mr. Rahimtoola.—Can you supply us those figures?

Mr. Scotson.—We have no such figures by us.

Mr. Russell.—One point crops up there. Of the quotations that come at the present day from Lancashire a proportion of these goods, dhotis at any rate, are now coming in half bales as distinguished from full sized bales.

President.—I think we would rather go on the import trade figures, that is the import trade returns.

Mr. Scotson.—I think that is a much more satisfactory way.

President.—On page 5 of your representation you say " . . . . the United Kingdom's share of trade declined from over 80 per cent. to under 60 per cent. in the short space of four years . . . . " How long has this been going on?

Mr. Scotson.—Since 1927.

President.—We will look into the figures you have supplied us.

Mr. Rahimtoola.—You say in answer to question 9 that the present duty on imported yarns is crippling the handloom industry. We were given to understand that handloom weavers are at present suffering because they are using foreign yarn. Have you heard anything about this?

Mr. Scotson.—For a time when the boycott movement was on in 1930 I think that was true to a certain extent because I know of one district in Bengal where looms definitely closed down over the question of yarn, but now the position has improved because there has been a decided better offtake of British yarns.

Mr. Rahimtoola.—That means that the boycott is not so intense now?

Mr. Scotson.—That is so.

Mr. Rahimtoola.—I suppose the same position holds good with reference to artificial silk yarn. You say that the position has altered.

Mr. Scotson.—So far as artificial silk yarn for the handloom industry is concerned I am not in a position to say.

Mr. Rahimtoola.—Mills generally in Bombay are not using artificial silk yarn but artificial silk yarn may be used to a certain extent by the handloom industry. I was wondering whether that position has altered.

Mr. Scotson.—We don't deal with that at all in our reply to the questionnaire. Our reply there is more or less with reference to Mr. Hardy's figures.

INDIAN MERCHANTS' CHAMBER, BOMBAY.

Evidence of Messrs. MANU SUBEDAR, J. C. SETALVAD and J. K. MEHTA, representing the Indian Merchants' Chamber, recorded at Bombay on Friday, the 26th August, 1932.

President.—Mr. Subedar, you are Vice-President of the Indian Merchants' Chamber?

Mr. Subedar.—Yes.

President.—Mr. Setalvad, you are a Member of the Committee?

Mr. Setalvad.—Yes.

President.—Mr. Mehta, you are Secretary?

Mr. Mehta.—Yes.

President.—Mr. Subedar, your Chamber is definitely in support of the claim of protection?

Mr. Subedar.—Yes.

President.—Subject of course to the various qualifications you have mentioned in the course of your representation?

Mr. Subedar.—Subject to the various conditions.

President.—You start your statement with a gentle word of criticism regarding the hesitating and ineffective recommendations made by this Board in the past? I am not raising the point in any spirit of complaint, but I should like to know a little more concretely from the Chamber what their ideas are with regard to the method by which the measure of protect may be determined. I will tell you precisely what my point is. As you are familiar with the work of the Tariff Board in the past, it is not necessary for me to go into the details of its work. What we generally do in enquiries of this kind is to determine the fair selling price for the Indian industry and then we take the import price less duty, take the difference between the two and fix that as the measure of protection required. Now what you feel apparently about that method is that it is likely to result sometimes in less than adequate protection for the industry. Have I understood your point?

Mr. Subedar.—I have understood the question. The Chamber does not want to criticise the machinery of the Tariff Board. If that is implied by our wording, that is not our intention. Our intention is that in the past the Tariff Board in relation to certain other industries have gone so closely and cut it so fine that really the slightest waft or wind of fluctuations, either in freight, import price or fair selling price, has upset their calculations and the industry has been deprived of the protection which they intended to confer on that industry. The standard case was steel. The other case I have in mind is the wagon industry and the constructional industry.

President.—You mean industries allied to steel?

Mr. Subedar.—Yes. Still other industries which one would think of are those in which the existing concerns may have kept on like the Titaghur Paper Mills. We don't see much extra production. We don't see new factories coming into existence.

President.—May I take it from a practical point of view your suggestions comes to this that in adopting the method which we have adopted in the past, it is necessary, having arrived at the final figure of protection, to allow a margin against eventualities. Will that be right?

Mr. Subedar.—It is necessary to err on the side of extra protection as I have put it in this draft.

President.—That is really the point where I want you to make your position a little more concrete. I will put the case in this way. Supposing in regard to say, some particular kind of cloth—plain grey for instance—we arrive at a figure of 16 annas a lb. as the price which will yield the Indian industry, let us say, a return of 10 per cent. on capital after allowing for depreciation, and other things. The import price less duty, let us say, is 12 annas and on our usual method, we fix the duty at 4 annas. Now am I right in thinking that your position is instead of fixing it at 4 annas we should allow a margin, a further margin of say one or two annas according to the estimate that the Tariff Board can form of the possible fluctuations which may occur in regard to imports or in regard to the costs of the industry during the period of protection—that is to say a certain margin must be allowed after the Board has made its meticulous calculations against eventualities.

Mr. Subedar.—You have stated it correctly with the exception of this that whilst we would like this margin to be allowed for fluctuations in certain factors affecting either the cost of production or the selling price of the imported article—which may be in the case of the imported article such as reduction in freight, reduction in insurance rate or any other factors or subventions or cheaper finance which might affect the import price; similarly something might increase the cost of production...........

President.—Such as extra taxation?

Mr. Subedar.—I was going to start with local taxation; such as local taxation, municipal rates, extra railway rates affecting cotton or any of the articles used, extra inspection fees—these have occurred in the last three years and therefore to your four annas you must add two annas more for all these contingencies; we would also like a further provision for automatic adjustments to factors for which no such provision can be made in advance, namely the exchange.

President.—Supposing you have a general off-setting measure, that is to say, an off-setting measure not merely in relation to exchange variations but in relation to any kind of drop in import price—supposing you have a general off-setting provision of that kind?

Mr. Subedar.—The provision would involve the setting up of machinery which would act automatically without reference to the Legislature.

President.—That has always been the intention of the Tariff Board.

Mr. Subedar.—Yes, that has always been the weakness of the system in operation so far.

President.—As regards the weakness of that operation, it is necessary to consider the precise process through which that particular weakness has resulted. As a matter of fact you will find that both in the recommendations of the Tariff Board and in the form in which the provision is embodied in the Protection Act, no reference to the Legislature is contemplated. Could we as a Tariff Board go any further than that?

Mr. Subedar.—No. If you thought that the intention of the Legislature to give protection would be thwarted by new factors which might arise either affecting the cost of production internally or affecting the selling price of the imported article and protection would therefore be thwarted in the changing order of the world to-day then you could recommend to Government that some machinery should be set up which would automatically adjust the duties particularly on the higher side if and when necessary.

President.—Let me now summarise your position. Your position is this. First after we have made these precise calculations regarding the measure of protection on the usual basis we should allow a certain margin for eventualities, eventualities which may occur either on the side of Indian cost or on the side of import price. Then, in addition to that margin we must have a provision for automatic off-setting duties.

Mr. Subedar.—My submission is that protection must protect.

President.—If it does not protect, it is useless.

Mr. Subedar.—It is only useful to Government for raising revenue.

President.—Sometimes it does not do even that.

Mr. Subedar.—It is often useful for that purpose. Our submission is that protection should be definite. Therefore it should be so definite that it may not fail, as it has unfortunately failed in several instances in the past.

President.—I was wondering when I read your statement whether you had at the back of your mind an idea of this kind. As you know, under the present Safeguarding Industries Act, and I believe also under the present Abnormal Import Duties Act, what they do is not to arrive at a precise figure on the method adopted out here but they look at the facts of the industry, look generally at the cost of import price and so on—they appear to have certain standard rates of duty, *viz.*, 25, 33⅓, 50, 75 and 100 per cent.—and arrive at the general conclusion "in this particular case what appears to suit the industry is 50 per cent. and therefore we fix it at 50 per cent.". If that was the alternative presented to you, would you consider that more suitable?

Mr. Subedar.—It depends entirely on the idea which Government have at the back of their mind in interpreting the policy of the Legislature. If the idea is that they would prefer the expansion of the industry rather than merely the preservation thereof, then we would certainly prefer the method which you have outlined just now as the English method, *viz.*, a big lump duty erring rather on the side of bigness than on the side of smallness and watching the results thereof.

President.—Except this that if you don't make some attempt at precise calculations, the fixation of a general duty may result in the protection granted being entirely ineffective. You take the risk.

Mr. Subedar.—I admit that, and I would submit a further consideration. While there is a scale of revenue duties in India, we would probably prefer not to break with the Indian tradition at once and therefore in our statement we have suggested rather a larger basic duty and then a provision for an automatic adjustment.

President.—That is going back to your own proposals?

Mr. Subedar.—That is not taking the English design straight away and not breaking too abruptly with the Indian traditions. It will be keeping to the Indian traditions but on the lines of the English Act make an extra provision.

President.—Your basic duty would be 16 annas?

Mr. Subedar.—Yes. Then there would be a provision that when there is an exchange or other unforeseen cloud that threatens the industry, somebody must act at once—not as in the past.

President.—With regard to the off-setting provision, would you fix the maximum?

Mr. Subedar.—I would not. When such a catastrophe as the depreciation of the yen occurs............

President.—That was precisely what I was thinking of.

Mr. Subedar.—I admit such catastrophes do not occur every day but when they do, I don't want the Government to be unprepared.

President.—It was precisely with reference to that question that idea cropped up. I find in what are called anti-exchange dumping duties, in practically every country, they fix a certain maximum, that is to say the duty that you can levy under the Anti-Exchange Dumping Act must not exceed the figure mentioned in the Act—I think the general provision is about 50 per cent. That is to say, the exchange may depreciate considerably more than 50 per cent. but the duty that you can enforce under the Act is limited.

Mr. Subedar.—The limitation, as far as I am aware, is with reference to the powers given to the administrative officers but the power of the Legislature is not limited. In England duties are just now at 100 per cent. which

the Board of Trade could, without any reference to the British Parliament, impose under those two Acts on any article.

President.—But then if the Government of the United Kingdom found it necessary to levy a duty higher than that, they would have to get fresh legislation?

Mr. Subedar.—I quite agree.

President.—But you would not agree to have a maximum?

Mr. Subedar.—That is a matter of administration. Apart from that, I would have no objection if 100 per cent. was given.

Mr. Boag.—As the limit of his discretion?

Mr. Subedar.—Yes.

President.—Practically the basic duty would have to be doubled.

Mr. Subedar.—I would like the Board to recommend to the Legislature to be prepared by some quick machinery specially to exceed even that if such a catastrophe were to occur because otherwise all the protective work which may have resulted by previous grant of protection in one or two years would all be wiped out by a blow of this kind from which the industry would take two or three years to recover.

President.—In that case, the best thing is not to suggest any maximum. If you suggested 100 per cent. and you further recommended to the Legislature that if circumstances required it would have to go beyond 100 per cent., everybody concerned would be frightened. It is much better not to make any reference to the maximum.

Mr. Subedar.—I submit that everybody concerned would be re-assured. They will feel that they are in a safe position and that they can go ahead in the legitimate activities and they would be protected in their legitimate activities by the Government.

Mr. Boag.—The representative of the consumer would be alarmed by the prospect of additional taxation.

Mr. Subedar.—No. The consumer would not lose because as in the case of the yen, the extra duty would not raise the price to him.

President.—What I feel in the matter is this. In the Tariff Act now there is a provision which confers sufficient powers upon Government to levy additional duties without any reference to the Legislature. Now with regard to the Steel industry in my own experience I believe there have been occasions when it was necessary for the industry to seek additional assistance and on every one of those occasions it was open to them under the Steel Industry Protection Act to take action automatically without any reference to the Legislature but on none of those occasions were Government prepared to use powers that the Legislature had conferred upon them. Supposing in the Textile Industry Protection Act we make a similar provision and I take it that your suggestion is really on the lines of that provision?

Mr. Subedar.—No. My suggestion, if I may repeat, is that the basic duty should be rather high after making precise calculations.

President.—I am not concerned with the basic duty. The basic duty would be in the protective schedule.

Mr. Subedar.—Then my suggestion is that the administrative officer—I would put down either the Collector of Customs or the Board of Revenue, preferably the Board of Revenue—immediately on receipt of advice from Calcutta or Bombay from the Customs Collector should have not only the power but the obligation to have the duty laid on.

President.—You confer the power?

Mr. Subedar.—I impose the obligation on the Board of Revenue of watching the exchanges and the moment the commercial Associations concerned represent by wire—and I take it that the Collector of Customs also would wire—the moment the Board of Revenue find that the protective duty can be nullified by the new exchange factor which has arisen, there should be an obligation on them to act.

President.—Then, the authority concerned, according to you, would be the Board of Revenue?

Mr. Subedar.—Yes, with a definite duty laid down that they must act—not merely with power at their discretion—because we have found unfortunately—this is not the place where we want to comment on Government action—that though the Government had the power under the Tariff Act, we are sorry to say, they did not exercise it on a material point where it was necessary thus destroying all the effect of protection given by them and enjoyed by the industry for a few years before.

President.—If you vest this power in the Central Board of Revenue, it means necessarily that the Central Board of Revenue is given a certain amount of discretion in the matter because it has to consider prices and if it is satisfied on a consideration of prices that there is need for raising the duties, it will act. You cannot divest the Central Board of Revenue altogether of the element of responsibility because it has to consider prices. My point is this. Suppose you had to vest a certain element of responsibilty somewhere, would you say it would be the Central Board of Revenue?

Mr. Subedar.—The Central Board of Revenue is one step removed from the Government of India and it is really a matter of adminstrative propriety as to who acts so long as the action is immediate.

President.—It is a little more than administrative propriety. I will tell you what I am thinking of. The Governor General in Council, by which I mean the Members of the Council, has to meet the Assembly: the Central Board of Revenue are not required to meet the Assembly. You pass this discretion on to the Central Board of Revenue, then when a commercial association like yours write to the Central Board and say "here are prices dropping all round, please take action" the Central Board look into the information they have about prices and they say the fall in the prices is such that we should exercise the powers vested in us. Then if the Government of India are questioned by the Legislature they say the Central Board have considered after investigating into the matter and they do not consider that there is any need for action. On the other hand if the power is vested in the Government of India, the Assembly can turn round and ask what is the kind of information on which you have come to this decision?

Mr. Subedar.—This point has not been gone into by our Committee with such nicety. All that we have in our mind is this that a machinery for automatic adjustment should be provided and while the discretion must vest to some extent on some party I think the extent of that discretion might be minimised by making a provision that if the prices fall 5 per cent. below the given price, which comes into consideration after adding the basic duty now, action should be taken at once. Then there is only the question of correctness of prices on which I don't think the divergence would be so serious because all the information would be derived from official sources and from the Collectors of Customs, but the discretion should be there to build up a specific protection by the 5 per cent. ladder.

President.—I see your point of view. The next point to which I want to draw your attention is the point which you make on page 2 of your representation. You make a reference to the possibility that the protection given to the textile industry will not be a permanent incubus on the consumer. I was wondering whether the trend of thought there is that it should be regarded as an essential condition of protection for the textile industry that ultimately as a result of protection and the developments possible under a scheme of protection, it will be possible for the industry to dispense with protection. That is to say, are you simply contemplating the possibility of the industry being able to dispense with protection or do you go further and say that such a possibility should be regarded in the nature of a condition for the grant of protection?

Mr. Subedar.—I think you are taking us to an etherial region of great futurity. Taking the remote future I certainly envisage the possibility of the

textile industry proceeding forward here with only a revenue duty and being able to export a certain amount. I think it should be possible at some distant date.

President.—I will tell you why I raise this question. I don't suppose, Mr. Subedar, you regard the conditions laid down by the Fiscal Commission as valid conditions, that they are necessarily conditions which should be satisfied before an industry is granted protection?

Mr. Subedar.—They are valid so far as your Board is concerned, but much water has flown in the whole world since that report was written and I think many people who were at that time rigid free traders would now find it difficult to raise their head.

President.—In the position in which you are placed you can take that line. But taking us here with all the limitations with which we are surrounded, the real point on which I want the Chamber's opinion is this: we have got the three conditions laid down by the Fiscal Commission, one of which is that before an industry is granted protection it must be shown that there is a reasonable possibility that the industry will ultimately be able to dispense with protection. We can grant protection on the basis that that condition is satisfied or if that condition is not satisfied we can proceed on the basis that the industry should be given protection simply on the ground of national importance. What is the view of the Chamber in this respect?

Mr. Subedar.—I think the time will come when the Indian textile industry will be able to stand on its legs and be able to dispense with protection, but that time is very far.

President.—But supposing on investigation we, as a Board, found that was very difficult to establish, then would you suggest to the Board that protection should be granted on the ground of national importance?

Mr. Subedar.—I don't think it would be right to consider whether the industry could do without protection at present because really the conditions laid down by the Fiscal Commission applies to the long run and for the long run I can predict without any lack of confidence that the textile industry in India would be able to stand without protective duty but should the Tariff Board after due consideration come to the conclusion which you put in the question I would dispute that conclusion.

President.—The conclusion that we arrive at is not that the industry will not be able to dispense with protection but I am simply suggesting a possibility that on the facts placed before us it is impossible for us to come to any conclusion one way or the other, but the Fiscal Commission definitely warns us to arrive at a positive conclusion before we recommend protection.

Mr. Subedar.—May I submit to the Board that when that question is being considered by them if it is possible to attach to that conclusion a question of time then it would be quite a correct conclusion that granted a period of time the Indian textile industry will be able to dispense with the protective duty and stand on its own legs.

President.—Would you hesitate to rest your claim to protection entirely on the ground that it is an industry of national importance?

Mr. Subedar.—I would not hesitate, but I must say that when the Fiscal Commission sat it was the first effort of its kind in India and it was very natural in that atmosphere to lay down conditions rather conservatively as they did. As I said, opinion since then in India and in the United Kingdom with which we are primarily concerned has made rapid and very big strides and the point of national importance appears absolutely prior in comparison to the two other conditions. It is more important for a nation or for an industry to survive than to think theoretically what will be the position in the future: it is more important immediately to safeguard and to protect than to worry about what will be the position after a few years. But as it is essential that the Tariff Board must go into the question I respectfully submit that it is possible within the terms of the Fiscal Commission's conditions to say that the textile industry will ultimately be able to dispense with protection.

President.—You are not giving me an answer to one of the questions I have raised: you seem to fight shy of it!

Mr. Subedar.—I do not want the claim of the textile industry to protection to be reckoned by the limited conditions put down by the Fiscal Commission.

President.—Assuming for argument's sake that that condition is not satisfied and you are faced with the question are you prepared to base your claim if you are driven to that position, entirely on the ground of national importance?

Mr. Subedar.—Certainly if I am told that the Tariff Board has come to certain conclusions that the textile industry does not satisfy that particular condition laid down by the Fiscal Commission then on what ground would you claim protection for the industry, then I would say that the textile industry is of national importance; it has the biggest amount of Indian money, it has the largest amount of labour engaged in an organised industry...........

President.—And the protection affects handlooms too?

Mr. Subedar.—Yes. It is a primary requirement of the people whereas the other things are things which may be luxury articles which may not be indispensable. Clothing next to food is of primary importance: both in peace and in war the existence of a healthy textile industry is something worth having in the country even if a little price has got to be paid.

President.—What precisely is your view regarding the reaction of this question on the cotton grower in this country: would you be able to give us a definite statement on the point? Am I right in thinking that if protection is withheld from the cotton textile industry it would have a very adverse effect on the cotton grower?

Mr. Subedar.—I think we can emphatically state that the cotton grower is almost wholly dependent in the long run on the textile industry. At the present moment he has foreign buyers but how long these foreign buyers will be there no one knows.

President.—If we are to consider the cotton grower, the handloom weaver and the workers engaged in the textile mills it seems to me that it is almost unnecessary for the Board to trouble about the normal conditions of the Fiscal Commission and the strongest element in the case for protection will be simply the fact that the textile industry is ensuring the livelihood for all sections of the population of this country represented by the cotton growers, handloom weavers and workers, so that it seems to me that the case on the ground of national importance is pretty strong.

Mr. Subedar.—And through cotton growers I may say Government revenues.

President.—On page 3 of your representation you refer to the second aim of protection. I take it what you have in mind here is the question of the principle of equalising the cost of production. Am I right?

Mr. Subedar.—Equalising the cost of production subject to two unmentioned conditions, namely that the capital must have a fair return and labour must have fair wages.

President.—That is to say if you take standard remuneration for labour and for the capital required, that must be fixed at what may be regarded as a reasonable Indian standard?

Mr. Subedar.—What I have in mind is this. The initial capital required for the Indian industry is higher for reasons well known. That initial disadvantage the industry can never hope to recoup unless there are several periods of great prosperity, otherwise that extra 5 per cent. or 10 per cent. over an English factory has got to be paid for.

President.—I am not going to dispute the validity of the principle. But when you are thinking of the method of protection if you are going to fix the measure of protection on the basis that we have been discussing, then may I take it that this principle is already included there?

Mr. Subedar.—I agree.

President.—On page 4 you raise the question of railway freight: you say "...........the charges from Bombay to Calcutta and Ahmedabad to Calcutta by rail are actually higher than the charges which cotton pays for transport from India to Japan and as for cloth being brought back from Japan to Calcutta inclusive ". I believe that statement is correct. If you take the owner's risk rate you get a rate of 3½ pies per lb. from Bombay to Howrah: from Japanese ports to Indian ports the freight on piece-goods taking plain grey, per cubic ton—and that of course varies according to the kind of cloth—comes to about 1¾ pie per lb. with the exchange standing at about 100.

Mr. Subedar.—A lesser rate must be assumed on raw cotton.

President.—I find the Tariff Board in 1926 fixed the two rates at the same level. I do not know what basis they had for it. I have not been able to work out the rates on raw cotton on account of the cubic ton.

Mr. Subedar.—It works out to almost identical rates for Japan to send cotton there and get back the piece-goods as it is for Ahmedabad to send cloth to Calcutta. That is one of the serious disadvantages to the textile industry. Of course it is easy to state the disadvantages but it is not so easy to state the solution.

President.—There is one point I want to raise. I take it you are speaking as Vice-President of the Indian Merchants' Chamber: supposing the proposition was put to the Calcutta mills, they are up against competition from Japan............

Mr. Subedar.—They are in a worse position.

President.—Supposing we give them enough protection to stand for a considerable time, then our next concern will be how they are going to stand in relation to Bombay and if we made a suggestion to the Government of India the railway freight from Bombay to Ahmedabad should be reduced, they would have something to say in the matter, won't they?

Mr. Subedar.—In the process of thought for an enquiry of this kind, I think the most important consideration is how to ward off the foreigner.

President.—We give you sufficient protection.

Mr. Subedar.—Then with regard to internal adjustment, I certainly think the mills located in different centres have advantages and disadvantages in comparison with each other.

President.—Take cotton a basic raw material.

Mr. Subedar.—We are to take many more things than raw cotton.

President.—You will find the most important factors are the relative freight on the raw material and the relative freight on the finished goods.

Mr. Subedar.—The other important factor is the area of marketability which each centre has got.

President.—That really resolves itself into a question of freight on piece-goods.

Mr. Subedar.—There is the question of range. In the case of the Calcutta mills they are in the same position as the Bombay mills being located at ports and being at the ports they feel the effect of foreign competition first and they feel it more than the interior mills. What should be the relative position between Calcutta and Bombay, between Bombay and Ahmedabad or between Indore and Bombay is a matter on which our Committee has not gone very deeply.

President.—May I put the question in this form?

Mr. Subedar.—Because we thought that the enquiry was primarily directed towards the question of tariffs which are to be on the foreign goods entering this country.

President.—Supposing I put the question in this form, imagine that you are in my position and you are asked to come to a decision on the question whether having granted enough protection against imports of piece-goods you

should reduce your railway freight and give Ahmedabad or Indore a similar advantage in respect of the Calcutta market as compared with Bombay. Supposing the proposition was put to you in that form, what exactly would be your reply?

Mr. Subedar.—But the proposition is not put in that form. The proposition which we have made here is that Indian mills which produce large quantities of saleable goods stand at a disadvantage against Japan. So far as the internal position is concerned our suggestion is that the mills located in the ports as in Calcutta and in Bombay should be given the normal freight charged by the Indian railways whereas the foreign cloth landing in ports should be charged 50 per cent. extra, which therefore puts the Calcutta mill at a distinct advantage over the foreign goods. Our suggestion in the matter of railway freights is not for the benefit of one particular section at the expense of the other, but for benefiting the Indian producer to the exclusion of the outside supplier.

President.—In this matter of railway freights, I do not know if you took any interest in our enquiry into the Chemical industry. In that report we made fairly detailed suggestion with regard to re-adjustment of railway freights for the purpose of helping the development of the Indian Chemical industry. We made a whole chapter of it and in the Resolution which the Government of India issued, the Government of India told us that this is a matter for the Railway Rates Advisory Committeee and not for us and I am wondering having received one rebuff whether I should invite another. I have been trying hard to see whether consistently with the limitations which the Government of India have placed upon us as a Tariff Board I can devise some kind of solution for this problem which I admit is a very difficult problem. The solution I have in view is this: now as far as the Calcutta market is concerned, I gather from the Millowners Association here that the most important class of piece-goods manufactured in Bombay for which the market is Calcutta is dhutis, the better class of dhutis. They are producing increasing quantities of dhutis. Supposing in fixing the measure of protection on the basis you have suggested I take not the import price, but I take the actual price realised by a Bombay mill, ex-mill for Calcutta dhutis and then fix my duty for dhutis on that basis, then have I not discounted the railway freight? I take the price realised by them ex-mill.

Mr. Subedar.—No. The price realised by the ex-mill is the discounted figure, because that price is realised in competition with the imported goods to-day.

President.—Supposing that dhuti is destined for the Calcutta market?

Mr. Subedar.—I would suggest the more correct basis would be not the price realised, but the cost of the dhuti as delivered in Calcutta *plus* whatever you consider to be reasonable profit per lb. on that.

President.—It will come to the same thing.

Mr. Subedar.—It would not particularly at the present moment come to the same thing, because the foreign article is being dumped here.

President.—You imagine the progress of a particular dhuti from here to the Calcutta market. I take it that this Bombay dhuti which goes to Calcutta market will not fetch in the Calcutta market any price higher than the comparable class of imported dhuti.

Mr. Subedar.—That is so. Imported dhuti in the case of Lancashire is helped by exchange.

President.—All that would be reflected in the c.i.f. rupee price.

Mr. Subedar.—Yes.

President.—Supposing the Bombay dhuti fetches that price, I take it the Bombay mill has got to incur the freight from Bombay to Calcutta. Therefore the realised price of the Bombay mill would be in rupees less freight from Bombay to Calcutta. Therefore they have got the benefit of the freight if you fix the price ex-mill here. I mean it is not a calculation which

would give you exact mathematical results. What I mean is there are various other factors which have got to be taken into account.

Mr. Subedar.—What I am worried at the moment is that there are two factors against the Bombay mill in that case. One is the rise in the price of cotton and the other is the fall in exchange.

President.—That I realise. Supposing you took a period when you think these adverse influences have been at work to a considerable extent.

Mr. Subedar.—If, in your calculations, you provide for these two factors, I have nothing more to say.

President.—I do not know if you are familiar with the Indian Railways Act. But I remember in one case some years ago we made a suggestion somewhat on the lines of the suggestion that you make here, that is to say there might be differentiation in the matter of railway freight between indigenous goods and the imported goods. As you probably know, on the South African railway system they have definitely that particular method in operation and we were told that an arrangement of that kind is definitely in violation of the Railway Act. The Railway Act lays down that in applying railway freights there should be no undue discrimination. An arrangement of this kind would be regarded by the Railway Board, I am speaking subject to correction, as undue discrimination and therefore forbidden under the Railways Act.

Mr. Subedar.—No. This thing came in under the classification. If foreign cloth was of a distinct kind capable of being described under a particular heading, it would not occur; otherwise I agree that an amending legislative provision would have to be made to that effect.

President.—My distinguished predecessor Ginwala took the line that every station to station rate was an undue discrimination and therefore the Railways Act has already been violated.

Mr. Subedar.—It is capable of that interpretation. Undoubtedly I think there was much in what Sir Padamji said, but the law is an ass as they say.

President.—Very much so.

Mr. Subedar.—To the layman which often works unduly harshly, but I think legislative provision is necessary for this additional surcharge on foreign goods and it would not be going beyond the authority of the Tariff Board, I submit, in view of the definite question which they have asked us as to whether apart from tariff in our opinion other measures are wanted.

President.—I think what we would do is in view of the Resolution of the Government of India on our Chemical Report, we would make no recommendation, because we feel very strongly that this is the position.

Coming to the question of India States to which you make a reference on page 5. You draw no particular conclusion from that paragraph.

Mr. Subedar.—It is more descriptive.

President.—The paragraph is a statement of fact.

Mr. Subedar.—Yes.

President.—May I draw an inference on your behalf?

Mr. Subedar.—Certainly.

President.—My inference is if the position as you describe it, then the imposition of further restrictions of any sort upon mills located in British India would make their position very difficult and therefore on that account restrictions of that kind have got to be very carefully considered before they are imposed.

Mr. Subedar.—I would agree to the whole statement which you made subject to this that restrictions which are likely to affect them financially.

President.—Let us take the question of excise duty. We have been asked to consider the question of an excise duty in relation to the handloom industry. Various people have put that proposition before us. Apart from any question of the handloom industry requiring protection of that kind, look-

ing at it purely from the practical point of view, if I said that the position of Indian States in regard to the textile industry would make the imposition of an excise duty exceedingly undesirable under present conditions, would you accept that proposition?

Mr. Subedar.—I would accept the proposition. As I said I don't want any restrictions on mills in British India which affect them financially and which would give an undue advantage to mills located in Indian States.

President.—May I take it you are definitely against an excise duty on that ground?

Mr. Subedar.—The question of the excise duty has not been considered by the Chamber. It has not yet come as a definite proposition either from any specific body of people or from Government.

President.—You would not care to express any opinion now?

Mr. Subedar.—I would generally say that the name "Excise" is a hated word in the Indian commercial world.

President.—Call it cess.

Mr. Subedar.—The revival of excise duty in any shape or form would be opposed by the Chamber, because a considerable prejudice is attached to it and you can't take away the prejudice by saying that it is going to be used for a very benevolent, a very useful and a very patriotic object of supporting the handloom industry.

President.—Let us not call it excise. Supposing I give it a less disagreeable label? Cess is awfully nice thing for research purposes like the cotton cess and tea cess.

Mr. Subedar.—What I would like to put before the Board is this. We have ourselves suggested the utilisation of certain monies collected from the protective duties for the promotion of the manufacture of stores in India. We think that if the Handloom industry establishes its claim to protection in any form which takes the form of monetary help, then that money should come not by the taxation of local production, but by the taxation of foreign imports. That is with the Chamber a matter of principle.

President.—I had better anticipate that point at this stage. I have looking rather carefully into that question. I think in two separate connections in your statement you refer to the possibility of utilising the increased revenues which may be expected from the protective duties. I put it to you that if protection is going to be continued for the Textile industry either at the present level or at an enhanced level, you will not get any increase in revenue. On the other hand you will get a shortage of revenue. I will make my position clear. If you take an industry like Steel in regard to which the bulk of the Indian market is still supplied from imports, there the protection in the early years would definitely have the result of increasing revenues. But if you take an industry which is already well developed like Textiles where about 75 per cent. of the market is supplied by the Indian industry, there the protection will have the result of reducing the Customs revenue.

Mr. Subedar.—What stretch of period have you in mind?

President.—I say immediately from next year you will get the reduction. I was looking into the figures. 1929-30 is the period immediately before the Cotton Textile Production Act came into force. I was taking 1929-30 and comparing it with 1931-32. If there are any qualifications to be made to my statement, you might look into it and send me a considered statement.

Mr. Subedar.—I am trying to follow the question.

President.—The question is this: take 1929-30 and 1931-32, two years for purposes of comparison. 1929-30 is the year just preceding the period of protection for the Textile industry. The general reduction in customs revenue in 1931-32 as compared with 1929-30 is about 9 per cent. On cotton piece-goods the reduction is 35 per cent.

Mr. Subedar.—Would you draw any inference from these figures so definite as are involved in this question? I would feel that the political and other

factors during that particular period were such that the abnormal fall or imports may be attributed to that rather than to the effect of protection.

President.—That is a difficult element. My answer to that is this: the present rate of duty on piece-goods was fixed with no particular reference to the actual requirements of the Textile industry. That is an arbitrary rate fixed. Supposing a rate of protection is now fixed with reference to the actual requirements of the industry on the basis you have suggested then may we not take it that even if the political influence regarding the Textile industry were removed, its place would be taken by the enhanced protective duty. An enhanced duty would have the same effect.

Mr. Subedar.—With all respect I would feel that it may not necessarily have that effect. For one thing we are suggesting a very much higher rate than now. For another thing the course of exchanges in the world is uncertain and should the exchanges fall further, the import may be more and the collection of revenue duty may be more.

President.—There is the offsetting duty. I don't want you to express any opinion straightaway, but I want you to look into it. If you don't accept my suggestion, I should like to know precisely what your view is.

Mr. Subedar.—I don't think that either Lancashire or Japan will let their market go without a fight, and without some counter-action and without some effort. It may not be in the nature of a war like effort; but it will be in the nature of rationalisation, subsidies from the State, cheaper freight and so on, so that part of the duty is certainly bound to be wiped out in the cheaper offer which the foreigner will make for all these goods. I do not envisage for a moment that Government will lose or continue to lose their revenue from the Customs duty on cloth as rapidly as you seem to think.

President.—There you are assuming that our scheme of protection may fail.

Mr. Subedar.—I am not assuming any extraordinary success for any scheme of protection in India until I see it.

President.—Even if we accepted all your conditions and those conditions were accepted by Government and the Legislature?

Mr. Subedar.—Even then I am very much afraid that Simla at the instigation of Whitehall may find various means or sort of nullifying the various provisions which we are making. I don't expect that phenomenal success of protection by which India will be able to produce everything she wants next year or by which Lancashire or Japan will cease sending goods. I don't expect that. Therefore I expect the Government to collect good money on the Customs.

President.—If the scheme of protection fails, then the revenue will increase. I am not disputing that proposition at all. But your proposition is rather different. If I accept all the conditions which the Indian Merchants Chamber have suggested to the Board and propose a scheme of protection and assuming the Legislature accept those conditions in good faith, then I think I am right in saying that there will be little revenue from the duty on piece-goods. I should like you to consider that question.

Mr. Subedar.—I don't expect an immediate fall.

President.—You don't expect an immediate fall. Would you like to consider the question in some more detail?

Mr. Subedar.—I will certainly make a note of it.

President.—It is rather vital to some important suggestions you have made. If there is no extra revenue to be had, certain important suggestions which you have made in your representation will be difficult to carry out and the utilisation of the extra revenues expected from the protective duty is also the basis of suggestions which have been made to us by other bodies and in every one of these cases I have been rather puzzled as to whether there is a real possibility of extra revenue coming to us, so that where there is a real divergence of views between us, it is just as well that we know it.

Mr. Subedar.—What do you mean by extra revenue?

President.—What I mean is this. Last year the Government of India fixed the Customs duty and various other duties at a particular level because they wanted a certain amount of revenue to cover a certain amount of expenditure. Assuming the expenditure remains at the same level and the revenues derived from duties fixed at a particular level begin to drop then I take it that there is a fall in the revenue. On the other hand if there is an increase then there is a surplus.

Mr. Subedar.—The fall in the revenue may be the result merely of falling prices even if the quantity imported remains the same. If we envisaged an all round rise of prices for which various Governments in the world appear to be anxious now, then granted a higher scale of duty and an all round rise in prices I cannot see how for many years to come Government revenue should be very low. If India's per head consumption of cloth fades daily because the purchasing power goes down or if there are any other factors of that kind, one cannot provide against it but there are two definite points raised in the question. Will the Indian industry expand so much in the next 3, 4 or 5 years? I don't think so.

President.—In the next 5 years?

Mr. Subedar.—I don't think that in the next 5 years the industry will expand so much as to supply the entire demand.

President.—I am much more optimistic than you are.

Mr. Subedar.—I would very much wish that the Tariff Board was not optimistic until they saw the results.

President.—We come to the next point, that is, with regard to the various conditions. I am not concerned in the least to question the validity of the condition you have suggested because I agree with you that the object of protection in this country is to encourage the use of Indian materials, Indian labour and the Indian capital and Indian enterprise. But the point with which I am primarily concerned here is what kind of sanction you would suggest for the enforcement of these conditions, assuming that protection is going to be granted in the form of an import duty and not in the form of a subsidy.

Mr. Subedar.—We were rather anxious for the acceptance of the principle, and I admit at once that we have not worked out a detailed scheme as to how all this was to be enforced. But the suggestion I should like to make is that the production of these industries is not altogether individualistic. They are powerfully organised associations in which this industry is represented so far as Bombay and Ahmedabad are concerned. So far as other centres are concerned it may not be difficult to get them to fall in a line by mere negotiation, but when you say sanction it goes a little beyond. Supposing negotiations are ignored what is to be done? We do not suggest straightaway an attack on those people. I am confident that they are businessmen who would realise the importance of a suggestion made by the highest authority in the land—a Government circular through their Associations will suffice—but should it not meet the case, the sanctions are many. The factory works under a licence at present. There is a boiler licence. There is a factory licence. There is no factory in the world that can defy the Government of the country with regard to any salutary rule which in the interests of the community they may lay down and I trust that if such a rule does not emanate from the phantasy of an individual but after enquiry by a body of your importance, I have confidence that through the factory licence, through the boiler licence and through the electric licence, these things can be done.

President.—If as a businessman you think that a strong recommendation from this Board and consequently a strong suggestion from the Government of India to important Associaitons representing textile mills in this country, would for practical purposes be sufficient, then would you be satisfied if we made a strong recommendation on that point along those lines?

Mr. Subedar.—I think that negotiations ought to suffice. Supposing some individual were to turn round and say " what are the Indian insurance companies? I don't want them. What are those Indian stores and so on? ", supposing some individual concerned were to take up that refractory attitude and yet continue to benefit under the provisions which you might make, then it is essential that he should be precluded from having those benefits.

President.—I am inclined to accept your original suggestion since there are important responsible Associations in this country representing the bulk of the industry, we may expect them to pay heed to a suggestion of this kind if it comes with the authority of a body which has enquired into the details of the industry and if it is backed by the executive of the Government of India?

Mr. Subedar.—I think that it ought to be enough but it should not remain a pious wish. It should be enforced. Some one must see that it is enforced.

President.—In that case your suggestion would be, if it is necessary to enforce it in that way, that a provision should be made in the Protection Act.

Mr. Subedar.—Yes, laying the obligation on somebody in this country who corresponds to the Board of Trade in England.

President.—I had better tell you the position. Last year when we were enquiring into the paper industry, we were faced with the same problem. We made a very strong recommendation on those lines in regard to the paper industry and we recognised that our recommendations might be ineffective for the reason that the recommendation lacked sanction. So, we made a suggestion to Government—in the case of paper there is one factor which differentiates it from the textile industry, *viz.*, that of the total Indian output, more than a quarter is purchased by Government—we made a suggestion to the Government of India that if any of the paper Companies in India refused to comply with those conditions, then the Government patronage should be withheld and in the Resolution which was issued by the Government of India on our paper report it was definitely stated that it was not the policy of the Government of India to take compulsory measures in a matter of this kind. In the Legislature there were individual speakers who protested against it but the Legislature did not as a body place on record their disapproval of the Government position. So the position with which we are faced is this. Our suggestion has been definitely turned down by Government and apparently acquiesced in by the Legislature. Where are we?

Mr. Subedar.—What I feel is this. The appointment and continued existence of the Tariff Board, its various enquiries and the various Acts imposing protective duties—all this is part of a policy, part of a scheme of things, which is yet in infancy in India. But once you go along this path, the enforcement of certain conditions in the interests of the community is absolutely essential. You don't want edifices reared by you with care and with sacrifice at one point in the country to be abolished by the individualistic and refractory attitude of any individuals, any single parties, anywhere in the country. You cannot have that.

President.—In other words, you want us to go on saying these strong things.

Mr. Subedar.—I want you to say that much of the good effect of the protective duties will be frittered away will be lost, will not reproduce itself in the production of more wealth if these conditions are not enforced.

Mr. Setalvad.—In this connection I would like to point out that as far as insurance is concerned we mentioned it to the Millowners' Association in Bombay in 1927 because at that time the matter was pending before the Tariff Board. So we made a point of it saying that a time might come when the industry might have to go again before the Tariff Board and ask

for protection. These are the actual words used as far as we are concerned:—"What will you reply to a future Government of India which says 'You come to us for assistance but to what extent are you yourselves supporting Indian concerns'? Gentlemen, I know comparatively little of your business but suggest very diffidently that if you could point out to the Government of India that amongst other things you were according very substantial support to the Indian Insurance Companies of Bombay, it might be of some assistance to you".

President.—What reply did you get?

Mr. Setalvad.—We got a sympathetic circular issued by the Millowners' Association which has not resulted in business.

Mr. Rahimtoola.—This was the correspondence you had?

Mr. Setalvad.—We saw them in deputation and put our case in 1927 before the Tariff Board's report was out.

President.—After the Board have finished its sittings?

Mr. Setalvad.—Yes. So it is very pertinent at this time.

President.—Mr. Subedar, I come to the question of managing agents. We have been discussing this question in great detail with the representatives of the Bombay Shareholders' Association and I don't think it is necessary now to go into the details of this question again. But there is one aspect of it that I wanted to put before you. Having listened to a great deal of discussion now from the point of view of the Millowners' Association and from the point of view of others interested in the textile industry, I have come to a tentative conclusion that the real point of the matter is this that what is required under the circumstances is that those who have invested money in the industry should have a better means of exercising control over the management of these things. If you can ensure control most of the problems which have been raised in connection with the managing agency question will solve themselves. It is primarily a question of ensuring better control on the part of the investor over the business in which his money is invested. Am I right?

Mr. Subedar.—You are right. What is the meaning of the word "control" in this context. Control means this that if at any particular moment the party is dissatisfied, he should be able to come in and take action. Otherwise control is useless.

President.—There are two kinds of control involved in this. There is first the control of the Director over the management and there is next the control of the shareholder. It is really a question from a practical point of view of seeing that these provisions in the Companies Act which are really designed for the purpose of bringing management under control are made effective in relation to the managing agency system which unfortunately finds no place in the Companies Act. If that is in some way secured, practically the whole problem is met. I want to see the problem as a whole. We have been told so much.

Mr. Subedar.—What I would say is this. The control of the shareholders which is absolutely unreal at present should be real and in order that it should be real, it should be open to the shareholders to see that things are being run on lines which are advantageous to the Company. If they are run on lines which they cannot possibly approve, it should be open to the shareholders to come in and if they come in as wise men in the first instance they would ask for information. They would ask for explanations; they would ask for power to sit down together and consult, negotiate and satisfy themselves but in the last instance if they were not satisfied in order that their control should be real, it should be open to them in the last resort to remove the particular set of managers (after all the managing agent is a big name) over their property and to put in somebody else or to curtail the authority which they have given to the existing managers to lay down conditions for them to follow under the threat that if those conditions are not carried out, they would put in somebody else.

President.—You are amplifying the point?

Mr. Subedar.—You ask me to agree and I agree in two words. The question is control of the shareholder.

President.—It must be real, effective control.

Mr. Subedar.—Real effective control of the shareholder. But control to my mind means this. I assume that he is a wise man not actuated by any personalities or any personal motives or any design on the company.

President.—I see your point. You mean you can't have effective control unless you are able to remove the person over whom you want to exercise control. You have very wisely suggested that it is not for us as a Tariff Board to make any detailed suggestion regarding this matter but only to make a recommendation that something on these lines should be done: is that your position?

Mr. Subedar.—No. My position is this that a change in the Company Law is wanted. I regard you, gentlemen, as a body of economists: I don't at the present moment give you as a body credit for drafting out a new Act. What I suggest is that you should make recommendations to the effect that a change in the law is wanted in this direction.

President.—We may mention the facts of the textile industry which render a change of that kind necessary and in view of those facts impress upon the Legislature the importance of urgently taking up the reform of the Companies Act?

Mr. Subedar.—I would also request the Tariff Board to say that the sacrifice which the country would be making in giving protection to the textile industry would be wasted if changes in the internal organisation of the managing agency system are not brought about.

President.—In the middle of page 10 of your representation you say " . . . . . it would be a grave omission from the recommendations of the Tariff Board if they did not bring out the defect of the managing agency system in two directions . . . . " and then you mention the question of costs and distribution of profits. We have been looking with some care into the cost statements that we have received from various Indian mills and I have also been looking into the cost statements in the report of the Tariff Board in 1926 and I don't think from the point of view of costs the result of the managing agency system has been particularly conspicuous. What I mean is the extent to which it has raised costs is not so considerable that reform on these lines would be justified entirely on those considerations.

Mr. Subedar.—I submit that the comparison which I had in mind is a comparison between the direct cost in overheads in India under the managing agency system and the direct cost in the overheads in other producing centres like Lacashire and Japan.

President.—That is a very difficult thing to arrive at.

Mr. Subedar.—That is the only thing with which you can compare.

President.—There is no way in which we can compare them. If I take, for examule, Japan it has not merely a particular system of management but the whole question of output comes into it, standardisation and output per loom and all that comes into it and I should find it very difficult to arrive at a reliable conclusion on that basis. The way I should like to look at the question is this: am I right in thinking that the reaction of the managing agency system upon the working of the industry may be tested in various ways but the most important test—what I might call the acid test—is the extent to which working capital is locked up in the industry in proportion to the total works expenditure of the industry. If you buy too much cotton your outstandings go up and the proportion that your working capital bears to the total expenditure must go up. I don't say that it covers the whole range of it. But it is a good test to apply. If I take various other industries in the country of which I have figures and supposing I try to calculate with regard to the Bombay section of the textile industry the average proportion of working capital to the works expenditure

and compare that with the other mills, then don't you think we should be able to get a reasonable basis for arriving at an approximate conclusion?

Mr. Subedar.—That would be one way of looking at it, but if you would permit me, there is such a thing as adding to the direct cost. A managing agent let us say takes so many rupees per year, so much allowance and so on: what does the mill get in return for that money? The first point is, is the money excessive? If you decide that the money is not excessive then the thing is, what do we get for that money? Sometimes we get capable men; sometimes we get absolutely third rate men who have the merit of having inherited from their parents the agents firm, who are successful speculators and have bought out the managing agency from competent managers.

President.—Isn't that a point rather in relation to the second consideration you have here? In that you say the commission earned by these people is a commission for which no adequate services are being rendered to the industry.

Mr. Subedar.—What is the process of selection by which these men get into the position in which they are normally in control of the industry? I submit the process of selection is extremely defective and it does not necessarily guarantee coming on the top of the most efficient party.

President.—The whole question of control is the question of finding the right type of men to manage the business: if a wrong type of man is there I exercise control in such a way that he is displaced.

Mr. Subedar.—Yes. It is not merely the direct costs but the burden.

President.—But the result of that burden has got to be measured in statistical terms. What I am trying to suggest is this: the second consideration that you suggest is the consideration in which we have got to bear in mind the principle. If you are going to have a wrong and unfair distribution of the net surplus that you get out of the industry then it makes development impossible. Therefore it is really the second consideration which is rather more important than the first.

Mr. Subedar.—It is possible that you consider the second more important than the first but I still emphasise the first point. This is an aspect which we had in mind. It is not that we are running away with that prejudice. We disclaim any prejudice in regard to this matter. Our association has the financial position of the industry as their primary object and it is not because we are prejudiced against the system that we have come to attack it but we genuinely believe that for the permanent interest of the trade the time for reform has come and the object of this suggestion is this that the method of perpetual agreements which are transferable does not provide for the selective process by which competent parties can come at the top. Even if you decide after proper enquiry that the scale of remuneration drawn by them is not excessive, my submission is that they are excessive having regard to the low efficiency and that inefficiency must tell in the costs; every lapse that you make in the purchase of cotton, in the purchase of stores, in engaging technical men, in purchasing machinery it must tell all throughout.

President.—And to the extent it tells in that way in the cost per pound of cloth?

Mr. Subedar.—Yes, of Indian manufacture as against foreign manufacture.

President.—Therefore ultimately if I base my conclusion on the relative burden per pound of cloth I am on safe ground.

Mr. Subedar.—Therefore if this inefficiency raises the cost of the Indian manufacturer and if your object is to give protection to the Indian industry it becomes your duty to look into this and say that this is a factory which is curable by better organisation, by better set of laws . . . .

President.—The point that I have in mind has a very close connection with your statement now. You say that ultimately as a result of this inefficiency the cost per unit of cloth must go up.

Mr. Subedar.—That would be the ultimate result.

President.—If I base my proposals in regard to the managing agency system on the first consideration you have mentioned, namely costs, then in order to make out a strong case I would have to say something on these lines, that if the managing agency system is either abolished or reformed then the reduction in costs that would result is such that there would be a perceptible improvement in the financial position of the industry; isn't that so?

Mr. Subedar.—Yes.

President.—Supposing as a result of reasonable measures of various kinds the possible margin in the reduction of costs is about 35 per cent., ultimately out of that about 20 per cent. can come only by reduction in labour costs, about 10 per cent. can be achieved by reduction in various kinds of overheads, about 5 per cent. by reduction in commission payable to managing agents. I am not saying that these figures have any validity but supposing that was the position, if I put my case for the reform of the managing agency system on the basis of costs, my case would not be very strong because the bulk of the reduction comes from other sources.

Mr. Subedar.—No sir. Whereas the direct reduction in the managing agency itself may be five per cent., in order to secure the most economical outlay of machinery, better organisation of labour and so on you want an efficient head.

President.—What precisely do you mean?

Mr. Subedar.—The system has an inherent possibility of harm to the industry as a whole because there is no process of selection. The agreements are permanent; shareholders have no right to look into them, no power to revise them: even in the case of the grossest abuse they cannot intervene. This is an industry you are going to protect. I say we have urged protection and a very full one but we feel that we cannot penalise for the sake of the vested interest of a few individuals, taxpayers, consumers, investors and the textile labour: therefore reform is necessary and it should not be a superficial and general recommendation but an essential condition of protection.

President.—I think I understand your point of view.

Mr. Boag.—I just want to ask you, Mr. Subedar, if in your membership there are any agency firms.

Mr. Subedar.—There are some of the most outstanding managing agents who are members. The President of the Millowners' Association is a member. He has seen this representation and has not voted against it.

President.—Let me hear what you have to say on the second point.

Mr. Subedar.—The point there is this. Investment is a continuous flow and wealth is consumable; it has got to be replaced from time to time as it is consumed. Some concerns lose and some concerns gain but if the shareholder in the textile industry as a body loses continuously, loses still further till they have nothing to lose—then the inducement to new parties who have made savings is extremely small. When a managing agency system is involved in liquidation it ends into zero: in other countries when a mill goes into liquidation you get at least 8 annas in the rupee; in India liquidation means zero. What I say is this: a reconstructed mill with a new body of shareholders or even with an old body of shareholders if they write down so much and start on the new basis, at least on the new basis it will earn.

President.—I quite understand your point. There are two or three specific suggestions that you make in various connections. On page 6 of your representation you make a suggestion that in considering the import prices various factors have to be allowed for, that is to say the actual invoice price may not be the price that really materialises in the market. That is what it comes to?

Mr. Subedar.—What I had in mind when it was drafted was this that if you have import prices given to you and let us say it works out in rupees at Rs. 9-8-0 per piece, that is the quotation as the import price, and assuming that a transaction is reported at Rs. 9-8-0 this Rs. 9-8-0 does not represent . . . . . .

President.—What exactly is this Rs. 9-8-0?

Mr. Subedar.—The price landed in India; it is the invoice price with the duty.

President.—And then when that particular article is placed on the market it is placed at a price which is lower than Rs. 9-8-0?

Mr. Subedar.—No. This Rs. 9-8-0 may represent the basis of transaction between the importing merchant and the importing office, but there are inside rebates, there are exchange rebates; sometimes there are shipping rebates. There are various rebates so that if you are a buyer and anybody told you that the import price is so much and therefore the Indian mill will get so much, that is a bit overstated because as I said there are inside rebates.

President.—In this particular enquiry for various reasons we cannot take the c.i.f. or the import price. We have got to take the price which the mill gets *ex*-mill. That is the price which reflects all these factors.

Mr. Subedar.—That is good enough for the mill side. When you take the imported article for comparison purposes . . . . .

President.—In taking the measure of protection for the Indian industry if you compare the fair Indian selling price with the actual realised price *ex* mill, it is unnecessary to go into the import price from the Indian point of view.

Mr. Subedar.—Yes if you are proceeding along that line, I have nothing to say. If anybody told you that the import price of a particular thing is Rs. 9-8-0 and the Indian price which the mill gets is Rs. 9-8-0 you will say that it is all right, but this Rs. 9-8-0 which is the stated import price is a little overstated.

President.—It is not merely in connection with these factors, but you generally find in most of the industries that apart from these factors the Indian price is generally lower because there is a prejudice against the Indian goods and the purchaser offers a lower price. What the psychology of it is I don't care to enquire. You have got to provide against that in fixing the measure of protection.

Mr. Subedar.—Import prices are usually overstated.

President.—If you look at page 16, question 29, there you are raising this question of depreciation rate applicable to double shift production. Am I right in suggesting that from our point of view it is probably unnecessary to go into this question. I will tell you why. What we are concerned with is to include a fair allowance for depreciation in the fair price that we fix for the mill industry.

Mr. Subedar.—I agree that if this disability continues, it is discounted in the price that you take.

President.—That is not my point. My point is whatever the Income-tax Authorities may do whether they give a special rate for the double shift or not to the extent that depreciation is calculated not per mill but per unit of cloth, the difficulty is automatically met.

Mr. Subedar.—If you calculate the costs on the basis of depreciation per unit of cloth, even then I don't see how you could take the rate of depreciation per unit of cloth without going into that.

President.—If you take a capitalisation of 100 for 50 lbs. of cloth, if you take depreciation at 4 per cent., you get 4/50 per lb. If you take a double shift at 8 per cent., production is 100 per cent. you again get 4/50 per lb. If I take 4/50 per lb. I am safeguarded a good deal.

Mr. Subedar.—You have taken it double without my getting it double.

President.—If every lb. of cloth that you are going to sell in this country includes depreciation, you are bound to get it.

Mr. Subedar.—I can only get it if the Income-tax Officer gives it. He does not under the Central Board of Revenue's orders. This has been the subject matter of correspondence between us and the Central Board.

President.—Even if the Income-tax Department allow only 4 per cent. in your case on the basis on which this figure is calculated the price that you realise will make up any loss that may incur by the misbehaviour on the part of the Income-tax Department. It is a sort of rule which works automatically.

Mr. Subedar.—Arithmetically it might work. You are really consuming future assets without any equivalent against it. If the machinery works double shift, it deteriorates more. I won't go into the suggestion of several people that the mill working 24 hours is better. That is all refinement. In actual practice night work is very destructive. I have myself been in charge of Textile mills working at night and I can tell you that at night supervision with your very best care lacks. The men are careless, very drowsy. Some of them are malingering having work elsewhere. Night work is very destructive and the Income-tax Authorities have not the slightest justification for denying double depreciation which is asked for.

President.—Would you be able to get any information?

Mr. Subedar.—We have secured information from independent sources which we have made available to Government.

President.—All that information is contained in your appendix.

Mr. Subedar.—Yes.

President.—You make a definite reference to the practice in the United Kingdom to which I find no reference in these pages.

Mr. Mehta.—It is in the last letter of the Government of India.

President.—Government of India says the practice is different.

Mr. Mehta.—Government of India after about 8 months enquiry have found certain things which they have stated.

President.—Where does that occur?

Mr. Mehta.—Page 9.

President.—It is a letter from the Central Board of Revenue.

Mr. Setalvad.—In the Woollen industry it has arisen and it has been conceded the request of the industry in India is not unreasonable.

President.—Have you any information what this additional allowance is in the Woollen industry?

Mr. Setalvad.—It is double.

President.—Is it exactly double?

Mr. Setalvad.—I should think so. Allowances for larger depreciation are made in other industries in the United Kingdom, for example in the Match industry.

President.—That I know definitely, but I do not know whether there was any practice of that kind in the textile mills.

Mr. Rahimtoola.—I would just like to understand the point of view of the Indian Merchants Chamber a little more clearly. You have mentioned certain conditions on page 6. They are about 7 of them and you have given us to understand that it would serve a useful purpose if the Tariff Board are convinced that these are suggestions in the right direction that they should form part of the strong recommendation in their report.

Mr. Subedar.—Yes.

Mr. Rahimtoola.—Do I understand that you don't desire that they should be conditions precedent to a scheme of protection?

Mr. Subedar.—They should be conditions accompanying any scheme of protection which you give, but of course their enforcement in some cases . . .

Mr. Rahimtoola.—You would leave it to public opinion.

Mr. Subedar.—No. I want a definite action on the part of the Government by administrative measures to enforce these.

Mr. Rahimtoola.—As far as I am able to understand, I thought I put it down correctly that you would be satisfied if not only a strong recommendation came from the Board, but it was backed up by Government in the form of a statement.

Mr. Subedar.—I will make it clear. If the Board laid down that side by side with the grant of protection these measures appeared to it to be essential and their absence would nullify in a marked degree the effect of any protection given by it, then I think it would be the duty of the Government of India and of the Legislature to lay down some machinery for their enforcement.

Mr. Rahimtoola.—May I remind you Mr. Manusubedar of this? I do not know whether you have seen the Sugar Report in which the Tariff Board said that so and so scheme should be a condition precedent to a scheme of protection and what is the result that we found. Neither the Government nor the Legislature took any notice of it. As the Legislature and the Government are constituted and the Board's powers being that of mere recommendation, I want to know how far the Indian Merchants Chamber would like us to help the Indian industries in this direction.

Mr. Subedar.—So far as the Board is concerned our request to the Board is to do their duty as thoroughly as possible.

Mr. Rahimtoola.—In the shape of recommendations if they are convinced that these are necessary for the industry.

Mr. Subedar.—Yes. So far as the authorities higher than the Tariff Board are concerned, if the Legislature and the Government of this country do not act on the recommendations of the Tariff Board as unfortunately they have failed to do in certain other cases in the past, it is the misfortune both of the industry and the country for which we shall not hold the Tariff Board responsible, but we on our part will not give Government and the Legislature any peace.

Mr. Rahimtoola.—It is for the Indian Merchants Chamber to fight the Government.

Mr. Subedar.—Yes.

Mr. Rahimtoola.—As regards the Managing Agency system do I understand the Chamber's definite view that a new Company after the protective scheme is established should be formed under the Managing Agency system?

Mr. Subedar.—We are concerned with those institutions which stand to benefit by the scheme of protection. It is the submission of the Chamber that the Managing Agency system should not figure in the Articles of Association and the Memorandum.

Mr. Rahimtoola.—You have also suggested that certain amendments to the Indian Companies Act may be taking place side by side with this.

Mr. Subedar.—Yes.

Mr. Rahimtoola.—Supposing the Tariff Board made some indications in their report and said that an *ad hoc* Committee be appointed to go into the amendment of the Indian Companies Act, that would satisfy the Chamber.

Mr. Subedar.—Let me make the position of the Chamber clear. I think the Chamber expects the Tariff Board to weigh in the light of the materials placed before them how far the present system of Managing Agency has the inherent possibility of inefficient through the restricted processes of selection of men in the control of the industy. We would expect you to weigh that.

Mr. Rahimtoola.—You have in mind certain individual cases.

Mr. Subedar.—No.

Mr. Rahimtoola.—What is the general state of the industry?

Mr. Subedar.—What I have in mind is this: every textile mill under the Managing Agency system is capable of rising to the peak of good management in a few years. May I make the point clear?

Mr. Rahimtoola.—The answer may be useful to the Board. That is why I interrupted you. I am sorry for doing it. The point which you are now elaborating is the general statement that the Managing Agency system is capable of doing. What I want to know from you is having regard to your experience and the experience of the Chamber—you have cited one instance here—whether there are any exceptional instances where this malpractice under the law which can take place and which you say may occur—whether now in existence or not.

Mr. Subedar.—It has existed in the past. That is my submission. With regard to every mill Company which is in existence to-day the evils of inefficiency have existed in the past, will continue to exist and will take this form as I was making it clear that in spite of the management being at a certain level and operating only to a small extent, the management sometimes rises to the peak of efficiency, then falls right down; then the Company changes hands, goes into liquidation; somebody else goes and buys out the Managing Agency; then it again rises. This sort of thing is not good for the industry. What the industry wants is a definite provision by which the process of selection of the best men to be in control of the industry should be less restricted than it is under the Managing Agency system.

Mr. Rahimtoola.—That means the frequent choice may be given to the shareholders to exercise their judgment in regard to the Managing Agency. You have put down 5 years.

Mr. Subedar.—Where the general feeling among the shareholders is very acute, some action is possible.

Mr. Rahimtoola.—Coming to the Cotton Growers Association which is raised in question 11, you are quite right when you said that the grower cannot rely on the foreign buyer and therefore he has got to look to India and Indian mills should expand their production, I want to know whether the Chamber has any view regarding the import duty on cotton which is at present in existence.

Mr. Subedar.—You want the views of the Chamber with regard to the imposition of the duty on cotton?

President.—With regard to the retention of the duty, should we recommend the retention of the duty from 1st April, 1933?

Mr. Subedar.—The Chamber opposed the imposition of that duty when it was put and the main ground on which we feel that the duty should not have been put was that it was a fling in the dark. The Cotton Growers had not asked for any protection and even if they had not asked, we were opposed to protection being given to them. No competent body of men such as you gentlemen are, ever sat down and examined what scale of duty would protect them, what scale was necessary for the production of long staple cotton or whether it was really a question of price which was leading to the import of foreign cotton or whether there were other things. We felt that it was an attempt by the Government to bag any revenue which would incidentally have the effect of retarding the production of finer counts by the Indian mills. We therefore opposed it.

President.—That I find in question No. 12. It has been brought to our notice that the large amount of cotton coming from America known as Middling is coming in direct competition with Indian cotton and to that extent the duty has proved beneficial. It may be that it was originally imposed as revenue duty. Whatever the reasons for putting it, I want to know in the light of what has happened the Chamber is prepared to consider it again.

Mr. Subedar.—The Chamber would be prepared to reconsider its position at any time, but the whole thing is a question of corelation. What scale of duty you want to impose on yarn, what scale of duty you want to put

on cloth and what scale on cotton? If the duty on foreign yarn and on foreign cloth is heavy enough and so heavy that the Indian producer of yarn and fine cloth is not penalised by the cotton duty, then the Chamber would probably be reconciled to it.

President.—I don't think the point of yarn and cloth comes into that, because I am distinguishing all cotton of 1″ and ⅞ from the higher counts and the long staple cotton. I am now concentrating my attention to cotton which is competing with Indian cotton. I am not asking you about cotton which is used for finer counts; it is not competing with Indian cotton, because it is not grown in India.

Mr. Subedar.—We are definitely opposed to the importation of cotton from America of the quality which comes in competition with what is produced, but we would like the Board to examine here the question of railway rates with reference to those particular qualities which are I believe produced at places about 350 miles and more distant from Bombay.

Mr. Rahimtoola.—I come to your reply to Question 43 which deals with artificial silk goods and artificial silk yarn. Now I should like to know what your Chamber is asking. You have said "Under the circumstances it is suggested that the interests of the community would be best served by shutting out the importation of cloth made from artificial silk altogether either by total prohibition or by prohibitive tariffs". You have suggested two alternatives and I want to know which do you prefer?

Mr. Subedar.—Either of them would have in the immediate future the same result.

Mr. Rahimtoola.—Have you examined it?

Mr. Subedar.—In the remote future it will have different results.

Mr. Rahimtoola.—Have you examined what would be the prohibitive duty?

Mr. Subedar.—I thought that was what the Board would determine. A prohibitive duty is a duty at which imports will cease. Looking at the recent fall in prices coupled with the fall of yen, I suppose 200 or 300 per cent. would not be enough. The fall in the price has been phenomenal. Imports from the United Kingdom have been wiped out. Japan is sending in enormous quantities. In the circumstances, the prohibitive duty would have to be fixed, let us say, at 500 per cent. Instead of levying as high a duty as that, perhaps total prohibition would be better.

Mr. Rahimtoola.—What is your position as regards the artificial silk yarn?

Mr. Subedar.—The question should be put to us, I submit, with reference to what is the existing law and tariff with regard to the import of artificial silk cloth. If I were assured that the artificial silk cloth was not coming in, my answer would be one thing. If I were assured that the artificial silk cloth was coming in, my answer would be different.

Mr. Rahimtoola.—I was thinking of the artificial silk yarn used by the handloom industry. I find that the Millowners' Association at Bombay have ceased to import silk yarn under certain conditions. I want you to tell me what the position would be. You are more or less recommending the total prohibition?

Mr. Subedar.—The Chamber has no figures of the amount of artificial silk yarn used by the handloom weavers; nor is the Chamber aware that the silk yarn is less in demand for that purpose. It may be in demand for replacement of silk, but I do not know that the question of cotton on the looms will be considered.

Mr. Rahimtoola.—I would now like to take you to your reply to Question 35. There is one question which I want to ask you in connection with the managing agency system. You have stated "If the system cannot be cured and brought within reasonable bounds, at least to eliminate the obvious perquisites and payments taken by the agents in excess of the standard and proper rate of remuneration for management, the system should be

altogether ended". I take it that your view is that they should get only commission on profit.

Mr. Subedar.—The standard and proper rate of remuneration for management which I have in mind here is the standard anywhere else in the world with reference to the general economic level.

Mr. Rahimtoola.—That means the standard of the managing agency system.

Mr. Subedar.—To my mind, managing agency is management. The cost of management in Japan per unit of cloth produced, though as the Chairman said it would be difficult to secure and somewhat vague, could be secured still and compared. Taking an average good sized unit in Japan and a good sized mill here, the unit cost of management should be compared and if it was found that India was in excess, something should be done.

Mr. Rahimtoola.—You would not like to take Indian conditions as they are to-day?

Mr. Subedar.—As you will find from our general recommendations with regard to the managing agency system, we have made them in a very conservative spirit—not to disturb too radically and at once—but the principle behind the urge for the change is there on which we are very strong and we feel that if the cost of management in India is more and if the managing agency system is the cause of it, then the managing agency system must go. That is how we feel.

Mr. Boag.—There is only one point on which I should like a little more information; that is your answer to question 40 where you are discussing the relative merits of specific and *ad valorem* duties towards the bottom of page 26 of your written statement. You point out that under a system of specific duties the same rate gives a different percentage of duties on different qualities ascending as we go down to the lower counts. That I take it means that the incidence of the duty is higher on the cheaper and inferior qualities of cloth?

Mr. Subedar.—Yes. The charge being a fixed charge namely $3\frac{1}{2}$ annas per pound, the incidence is much higher as we go down.

Mr. Boag.—What I want a little more information about is the next sentence—"This would lead to attempts on the part of importers to evade the duty by importing ready made manufactures. Has there been any evasion of that sort in respect of specific duties which are now in force?

Mr. Subedar.—The specific duties would work out on lower counts to 50 per cent. and more.

Mr. Boag.—The present specific duty?

Mr. Subedar.—Yes.

Mr. Boag.—Has that led to evasion?

Mr. Subedar.—I heard that Japan sent a million Gandhi caps to India and I suppose they probably paid on those caps and such other manufactured things as shirts, frocks, etc., 25 per cent.

Mr. Setalvad.—That was an attempt at evasion of the heavy duty.

President.—We are definitely looking into this question of evasion.

Mr. Boag.—You are afraid that an increase in the rate of duty would be defeated by further evasion of this sort?

Mr. Subedar.—Attempts at further evasion would be made if they were successful.

Mr. Boag.—How can you prevent that? It is perfectly legitimate for Japan to make those piecegoods into manufactured articles and send them here. There is nothing improper about it?

Mr. Subedar.—Except that our Tariff Schedule, if it is to be worked on a scientific basis, would have not only definite basic duties on the raw material, on the finished products and on but certain consequential duties on the fabricated article.

Mr. Boag.—That is what I was getting at?

Mr. Subedar.—If there was no such consequential duty, it would not only weaken protection to that extent but it would deprive the Indian workers of their wages.

Mr. Boag.—You have mentioned that.

President.—You would have to apply the same rate. If you fixed a specific duty and an *ad valorem* duty for some kind of imported cloth, then manufactures corresponding to that particular class of cloth must bear the same rate.

Mr. Subedar.—That is our submission.

Mr. Boag.—That is you suggestion?

Mr. Subedar.—Yes.

President.—There is one suggestion which you make in connection with the specific duty. I have not been able to follow the intention of the Chamber there; that is the power that you contemplate conferring on the Collector of Customs with regard to specific duties. I do not know if it is very important from a protective point of view to give this power to the Collector of Customs because as far as I can see if your suggestion were accepted, the effect would be not so much to safeguard protection as to safeguard revenues. What I mean is this. If I can go back to my original illustration, the fair selling price is 16 annas and the import price is 12 annas. The measure of protection therefore is 4 annas and it is given in the form of a specific duty. Supposing this price of 12 annas goes up to 13 annas, then the industry is quite safe with a specific duty of 4 annas.

Mr. Subedar.—When the price becomes 11 annas, then the duty of 4 annas is not sufficient.

President.—If you give the Collector of Customs the power to increase the specific duty when there is a rise in price, what you are doing is to give the Collector of Customs the power of increasing taxes for purely revenue purposes because it would be unnecessary. It would be necessary to give the Collector power to raise the specific duty or for the matter of that the *ad valorem* duty if prices fall.

Mr. Subedar.—I think we were only anxious for two things in making this suggestion. One was that the effect should be instantaneous and immediate so that even a few steamer loads of goods may not be dumped into the country as it has occurred unfortunately at present in the interval. While the Government and the Tariff Board are thinking or negotiating with Ottawa—God knows where—full steamer loads are being landed in Bombay and Calcutta. They come in at the old tariff from Japan. We regret this contingency and do not like it to recur and therefore we want to empower somebody.

President.—This is simply to illustrate the need to have the machinery for dealing with a situation that has arisen in this country.

Mr. Subedar.—I don't think that our suggestion goes to empower the Collector of Customs to raise the duty.

President.—Where protective requirements do not justify?

Mr. Subedar.—Quite.

MARWARI CHAMBER OF COMMERCE, CALCUTTA.

Evidence af Messrs. D. N. MOOKHERJEA, GOKULDAS MOHATA, H. BAID and MOHANLAL BARJATYA, recorded at Calcutta on Tuesday, the 13th September, 1932.

President.—Gentlemen, you represent the Marwari Chamber of Commerce?

Mr. Baid.—Yes.

President.—Are your members mainly interested in the import trade?

Mr. Mohata.—In import trade as well as in indigenous goods.

President.—You are mainly importers and dealers?

Mr. Mohata.—Yes.

President.—That is to say you are partly importers of piece-goods and partly dealers in both imported piece-goods and Indian piece-goods?

Mr. Mohata.—Yes.

President.—Are any of your members direct importers?

Mr. Barjatya.—Most of the members are direct importers.

President.—They import direct from Lancashire and Japan and they also distribute the goods here.

Mr. Barjatya.—Yes.

President.—I should like to get some idea of the general method of the import business in regard to piece-goods as far as the Calcutta market is concerned. If you import direct from the United Kingdom or from Japan, the usual procedure, I suppose, is for goods to be consigned to you by export houses on a c.i.f. basis.

Mr. Barjatya.—Sometimes it is c.i.f. c.i.

President.—How exactly is the importer here remunerated? Is it on the c.i.f. price?

Mr. Baid.—Yes. He calculates the percentage on the c.i.f. They import on their own account.

President.—That is to say they purchase outright.

Mr. Baid.—Yes.

President.—If you are importing a consignment, what is normally supposed to be the rate of commission allowed?

Mr. Baid.—About 2½ per cent.

President.—Like every other trade?

Mr. Baid.—Yes.

President.—I should like you to help me on this point. If I get the c.i.f. price of any particular class of goods, what precisely are the charges that I have to allow for in order to get the wholesale market price? Can you give me what you consider the standard rates to be allowed for under various heads? What I mean by the wholesale market price is the price at which the wholesale dealer sells, not the price at which the wholesale dealer buys from you. Let us take the c.i.f. at 100. To that obviously you have got to add this 2½ per cent. commission.

Mr. Mohata.—First we add the customs duty.

President.—The first thing you add is the duty to the c.i.f.?

Mr. Mohata.—Yes.

President.—Let us assume it to be 25, *i.e.*, 100 *plus* 25. At what stage do you add the importer's commission?

Mr. Mohata.—We add $6\frac{1}{4}$ per cent. commission which include the discount we give in the market as well as other things. Generally $3\frac{1}{2}$ per cent. discount is allowed in the market.

President.—That is to say if c.i.f. is 100 and you add duty at 25, to that you add $6\frac{1}{4}$ per cent.?

Mr. Mohata.—Yes.

President.—$6\frac{1}{4}$ per cent. on 125 will give you the wholesale market price.

Mr. Mohata.—Yes.

President.—The price at which the retail dealer can buy from the wholesale dealer.

Mr. Mohata.—That is the charge at which the wholesale dealer buys from the importer.

President.—That is the price at which the wholesale dealer buys from you.

Mr. Mohata.—Yes.

President.—What approximately here is the commission charged by the wholesale dealer. If, for example, there is a fixed price the commission would go down. Under normal conditions, would $2\frac{1}{2}$ per cent. be the wholesale dealer's commission in Calcutta.

Mr. Mohata.—They can't get $2\frac{1}{2}$ per cent.

President.—It will be something less than that.

Mr. Mohata.—Yes.

Mr. Rahimtoola.—Is not the wholesale dealers' commission included in this $6\frac{1}{4}$ per cent.?

Mr. Mohata.—No. $3\frac{1}{2}$ per cent. discount is allowed in the market.

Mr. Rahimtoola.—If you add $6\frac{1}{4}$ per cent., you get the price at which the importer delivers the goods to the wholesale dealer and the wholesale dealer charges $1\frac{1}{2}$ or 2 per cent. according to the condition of the market. If you add that, you get the wholesale market price.

Mr. Barjatya.—Yes.

President.—With regard to imports from the United Kingdom, if you take the total amount of imports now from the United Kingdom direct Indian importers account for roughly what proportion of it? There are British import houses.

Mr. Mohata.—Yes.

President.—There are also Indian import houses. What is approximately the share held by the direct Indian import houses?

Mr. Mohata.—60 per cent.

President.—What about Japan? There are Japanese importers.

Mr. Mohata.—About 50 per cent. would be done by Indian importers.

President.—So that Indian importers have a very big interest in the trade.

Mr. Mohata.—Yes.

President.—Is there any difference as regards the methods of import or as regards commission, credit allowed and so on. Supposing I want to do import business from United Kingdom and import business from Japan, can I take this $2\frac{1}{2}$ per cent. commission as the normal rate that you will apply both to Japanese imports and United Kingdom imports?

Mr. Mookherjea.—No.

President.—It will be slightly lower in the case of Japanese imports.

Mr. Mohata.—1 to $1\frac{1}{2}$ per cent.

President.—Is there any difference regarding the credit allowed?

Mr. Barjatya.—There is no difference.

President.—I should like to get your opinion because there is a good deal said to us from the representations we have received regarding the quality of Indian goods of finer counts as compared with the quality of comparable classes of imported goods. During the past 2 or 3 years we have been told a fairly big advance has been made in the production of finer classes of piece-goods in Indian mills. Since you are dealing both in imported goods and in Indian goods I expect you would be in a position to tell us how the two classes of goods compare in point of quality. I want to take some of the finer counts. Indian mills have been making 40s and above. If you take for example bleached shirting somewhere about 50s, considerable quantities of that kind have been made in India. How do they compare in quality say with United Kingdom bleached shirting of similar counts?

Mr. Mohata.—They don't compare favourably.

President.—What exactly is the difference? Can you tell me precisely?

Mr. Barjatya.—The most striking difference is in the finish.

President.—What do you call finish? Take bleached shirting. Is it the softness of it?

Mr. Barjatya.—It is the sizing and shining combined.

President.—It looks better and feels better.

Mr. Barjatya.—Yes.

President.—Is there a marked difference?

Mr. Barjatya.—Yes.

President.—If you took, for example, the general opinion of the market in Calcutta, that general opinion would be that Indian goods of finer counts are markedly inferior in point of size and shine. Does that apply to other classes of goods besides shirting? Take, for example, grey dhutis of finer counts 50s and 60s. What would be the position with regard to that?

Mr. Barjatya.—The difference is not so much as in other qualities. Indian mills are doing quite well in grey dhutis of finer counts.

President.—What about the coloured goods

Mr. Mookherjea.—I have not seen much of the coloured goods made by the Indian mills.

President.—Coloured goods of finer counts are produced in very small quantities.

Mr. Mookherjea.—Yes.

President.—I think it is the Ahmedabad mills and also the Bombay mills are making these coloured goods and probably they don't come into the Calcutta market.

Mr. Mookherjea.—We have very little opportunity of seeing them here.

President.—It is really in grey goods that Calcutta market predominates, am I right?

Mr. Mookherjea.—Yes.

President.—So that your opinion is, with regard to finer dhotis or grey goods, Indian goods are quite comparable in quality?

Mr. Mookherjea.—Yes.

President.—I should like you to give me a similar estimate as regards the comparative quality between Japanese and United Kingdom goods. Recently, for example, Japan has been importing considerably larger quantities of mills, and nainsooks. Goods of that kind three or four years ago came in very small quantities from Japan. How do these goods compare with similar classes of goods made in India?

Mr. Mookherjea.—They compare very favourably.

President.—In every respect?

Mr. Mookherjea.—Yes.

Mr. Barjatya.—Save in respect of price.

President.—I am coming to the question of price later. I am just now on the question of quality. Supposing I bought pieces of bleached mull of somewhere about 20s from Japan and from United Kingdom, you would say more or less that they would be the same in quality and in appearance.

Mr. Barjatya.—Mulls would be of 50s.

President.—If you take mulls of 50s from Japan and United Kingdom in point of quality and in point of appearance, are they more or less the same?

Mr. Mookherjea.—Mostly similar.

President.—That is to say, the average consumer would on the ground of quality not make any distinction between United Kingdom and Japan?

Mr. Mookherjea.—There is some distinction in the finish. The Japanese nature of finish is a little bit different from United Kingdom finish.

President.—Can you explain to me?

Mr. Mookherjea.—It requires some technical knowledge.

President.—Or is it that you are able but that I have not got the technical knowledge to understand it? If you can explain to me, it will be helpful. You have dealt in these things. What kind of lay impression you have formed is all that I want. After all I am a consumer and I consume piece-goods and if I go into the market and buy Japanese mulls of 50s and I am faced also with Lancashire mulls of 50s I have to make up my mind. If you can tell me what is the sort of difference that I am likely to see, that would suffice.

Mr. Mookherjea.—So far as I have marked, the Japanese finish has got a little softer aspect.

President.—That is to say to a smaller extent, it is the same kind of difference which we have noticed between imported bleached goods and Indian bleached goods?

Mr. Mookherjea.—Yes, in some respects.

President.—It is the same kind but not so marked?

Mr. Mookherjea.—Quite.

President.—That puts it correctly?

Mr. Mookherjea.—Yes.

President.—As regards price, if you take mulls of 50s, is there a considerable difference in price between United Kingdom goods and Japanese goods?

Mr. Mookherjea.—Yes, there is.

President.—Approximately what would be the percentage?

Mr. Mookherjea.—About 5 per cent.

President.—It is 5 per cent. on the duty paid price or on the c.i.f.?

Mr. Mookherjea.—On the duty paid price.

President.—If you take nainsooks, would the difference be 5 per cent. or more? I have a sort of impression that the margin is bigger. As regards mulls, apparently the Japanese prices are still approximating to United Kingdom prices. They have not drifted away to the extent they have in other classes of bleached goods.

Mr. Mookherjea.—It is difficult to compare the Japanese quality and the United Kingdom quality. They do not exactly compare. They appear to be something similar. That is the difficulty. In comparing prices it is very difficult to say how much difference there is.

President.—That is the whole difficulty with regard to the textile goods. You cannot take one class imported from United Kingdom and take another from Japan and say that they are comparable. Supposing you take

approximately comparable classes, you would put the difference in respect of mulls at about 5 per cent.?

Mr. Mookherjea.—Approximately, yes.

President.—Supposing you took bordered grey, is the difference the same?

Mr. Mookherjea.—There also the same difficulty arises. None of the Japanese quality is the same as the British quality. It is quite different in nature.

President.—I understand, unless I am very much mistaken, during the past three or four years in the Calcutta market several well known brands—brands which have been known for many years in the market—of British goods have now disappeared?

Mr. Mookherjea.—Yes.

President.—They have been replaced by Japanese goods?

Mr. Mookherjea.—I do not know if you can use the word "replaced" in that connection.

President.—How would you describe it?

Mr. Mookherjea.—Suppose for example there is a very well known quality of Ralli's Lattoo 2300. That quality is not sold so much now. In its place the Japanese quality which is known as Flower and Horse Shoe brand is very much liked by the people though the counts are almost the same.

President.—By counts you mean reed and pick?

Mr. Mookherjea.—Yes.

President.—Are the counts, that is to say the kinds of yarn the same?

Mr. Mookherjea.—No.

President.—They are different?

Mr. Mookherjea.—Yes.

President.—The yarn of the Japanese quality is inferior?

Mr. Mookherjea.—Yes.

President.—It is slightly coarser?

Mr. Mookherjea.—I think it is rather softer.

President.—When you speak of counts, you are thinking of reed and pick. When I talk of counts I am thinking of the fineness of the yarn.

Mr. Mookherjea.—16 × 14 would be the reed and pick.

President.—What would be the count of yarn?

Mr. Mookherjea.—32s × 36s.

President.—That is the Japanese cloth?

Mr. Mookherjea.—Yes.

President.—The United Kingdom cloth which is giving way to this has more or less the same reed and pick?

Mr. Mookherjea.—Yes, approximately.

President.—But made of different counts of yarn?

Mr. Mookherjea.—I do not know.

Mr. Mohata.—It would be of finer quality.

President.—Would it be 40?

Mr. Mohata.—It would be difficult to say.

President.—This Japanese cloth may I say has displaced the other?

Mr. Mookherjea.—In a sense it has.

President.—I suppose it is partly because the purchaser has less money at his disposal and would like to purchase the cheaper thing?

Mr. Mookherjea.—Yes. Also the boycot movement has some effect on it.

President.—If the Japanese goods had not been cheaper, I doubt not that would also have been affected. But as it is, it is more active against United Kingdom goods than against Japanese goods.

Mr. Mookherjea.—Yes.

President.—What approximately is the difference in price or was the difference in price when both were in market?

Mr. Mookherjesa.—2 annas per pair.

President.—What is the price per pair?

Mr. Mookherjea.—Rs. 1-14-0 on an average.

President.—That is about 7 to 8 per cent.?

Mr. Mookherjea.—Yes. If the price of Ralli's quality is Rs. 2, the Japanese quality would be sold at Rs. 1-14-0.

President.—That difference in price was enough to turn the purchaser away from United Kingdom to the Japanese cloth?

Mr. Mookherjea.—Yes.

President.—Now is that kind of thing happening in regard to many other varieties of cloth or is it rather an exception?

Mr. Mookherjea.—Whichever is cheaper and whichever quality comes very similar to the kind of quality in vogue before, the cheaper quality will replace the other.

President.—That is happening in regard to all classes?

Mr. Mookherjea.—Almost all classes.

President.—In the various reports I have read, a statement has been made that the taste of the Indian purchaser is rather fixed and that it does not vary from time to time. Now if these Japanese brands which are now coming into the market are new brands which have not been in the market before, then it seems to me that the present decline in the purchasing power of the consumer is driving him to acquire new tastes. I remember when I was a youngster there was a particular class of mark. I always went to the market and asked for it. I asked for it, my father asked for it and everybody in the family asked for it. Now I suppose if I go into the market on account of the fact that things have become dear, I probably look for alternative kinds of cloth which may be in the market and buy the brand which approximately has the same quality but which I can get at a lower price. In that way therefore as a result of recent changes in price and so on, the tastes of the consumer are rapidly changing?

Mr. Mookherjea.—That is true. Even to-day, the purchaser would like to get a similar quality at a cheaper price but does that indicate his change of taste or ideas?

President.—You are probably right.

Mr. Mookherjea.—He is selecting a substitute which is similar to his original idea.

President.—It is not an essential change in his taste but he is being compelled by economic circumstances to acquire a taste.

Mr. Mookherjea.—To get the best for the price he can afford.

President.—In that way during the past three or four years there has been a great deal of dislocation in the market?

Mr. Mookherjea.—Yes.

Mr. Barjatya.—There is certainly a great difference in appearance between the two things. The appearance of the Japanese goods is more attractive especially in grey shirtings and grey dhotis. That is the chief reason. In addition to that, there is the reason of price.

President.—I am coming to that point. I have formed the impression that as regards grey goods Japan puts on the market goods which are slightly better in quality and in appearance than Indian grey goods.

Mr. Barjatya.—Yes.

President.—But Japan is able to sell them at the same price or a slightly lower price?

Mr. Barjatya.—Lower than the Indian price.

President.—I am speaking of Japan and United Kingdom. The Japanese manufacturer makes a slightly better quality of grey goods and puts them on the market at the same or a slightly lower price. But as regards bleached goods, his goods are inferior in quality and in appearance to the United Kingdom goods and are cheaper in price.

Mr. Barjatya.—In bleached goods, Japan only makes cheaper varieties, or inferior goods.

President.—And sells them at a lower price?

Mr. Barjatya.—Yes.

President.—I take it that one reason why there has been this large decline in the demand for British goods is that British goods are more expensive and generally at a time when the purchasing power of the consumer is reduced, he would seek to buy goods that he could get at a lower price?

Mr. Barjatya.—Yes.

President.—Along with that also there has been the influence of swadeshi movement?

Mr. Mookherjea.—Yes.

President.—Both of them have operated?

Mr. Mookherjea.—Yes.

President.—And the general decline in the imports of British goods must be put down to the combined effect of these two forces?

Mr. Mookherjea.—Yes.

President.—You would not necessarily say that the swadeshi movement operates more actively against British goods than against Japanese goods, supposing the prices were the same?

Mr. Mookherjea.—I would not say that.

President.—The influence of swadeshi movement regarding imported goods is as a whole very strong in the market?

Mr. Mookherjea.—There is now no propaganda going on in the market.

President.—There is the feeling?

Mr. Mookherjea.—There is a feeling amongst the consumers.

President.—That is to say the consumer apart from the decline in the purchasing power is expressing a marked preference for Indian goods as against imported goods.

Mr. Mookherjea.—Yes.

President.—That he does?

Mr. Mookherjea.—Yes.

President.—I should like you to tell me generally whether the existence of this marked preference for Indian goods as against imported goods merely helps to increase the sales of Indian goods or it also helps to put up prices as compared with imported goods?

Mr. Mookherjea.—It does both.

President.—That is to say if the swadeshi movement had not been there, Indian goods would be fetching lower prices than they do in comparison with imported goods?

Mr. Mookherjea.—Yes.

President.—Now the dealer who for many years has been dealing in imported goods finds that he has to transfer his business to Indian goods because otherwise he would not find a market for his goods?

Mr. Mookherjea.—Not exactly that. The dealers nowadays keep generally all these goods—Indian, Japanese and United Kingdom goods.

President.—But then if there is a marked preference among purchasers for Indian goods as against imported goods, obviously it would be to the interests of the dealer to stock more of the goods for which there is a preference in the market?

Mr. Barjatya.—Yes. Many dealers have stopped keeping imported goods.

President.—It is more to his business interests.

Mr. Mookherjea.—Many dealers who have been dealing in British goods or European goods alone before have now taken to stock Indian goods.

President.—There is one point I want to ask you in this connection and that is the influence of Banks. If I am a dealer, I stock a certain amount of goods. I have to finance it for which I take a loan from a Bank. If the Bank finds that there is a growing preference in the market for Indian goods as against imported goods, then the Banker would be more ready to give advances of money on the security of Indian goods than on the imported goods.

Mr. Barjatya.—There is nothing of that sort.

President.—I was once told by a person who had dealings at an up-country centre with a Bank that because of this strong movement against imported goods, the Bank was rather chary of advancing money on the security of imported goods because they thought that imported goods would not fetch the same price.

Mr. Mohata.—We have never had experience of that kind.

President.—There is just one other point that I want to raise. We have had complaints that in regard to both Indian goods and imported goods there have been cases recently in which the lengths are shorter than the lengths stamped on them.

Mr. Mohata.—In the case of specially finished goods imported from England as well as in the case of Indian goods there have been cases like that.

Mr. Barjatya.—Goods may be coming short, but there have been no cases.

President.—Under the Act?

Mr. Barjatya.—Yes, because the Act does not cover that and at the same time there is no difficulty in passing off Indian goods whether they are short or not.

President.—Because the Customs do not take the same interest in Indian goods as they do not get anything out of it? Have there been many cases of goods coming in short lengths from the United Kingdom?

Mr. Barjatya.—Yes, there have been several cases in the case of white dhoties for example. Sometimes such cases of considerably short length have been referred to the Bengal Chamber of Commerce.

President.—Supposing, for example, you import cloth and then you find that the cloth with which you are saddled is shorter in length than the length stamped on it, what is the remedy?

Mr. Barjatya.—If he does not make some allowance we take the case to the Bengal Chamber of Commerce for arbitration and their award is final on both.

President.—What is the sanction for that award? Supposing the man from whom you import does not accept the award?

Mr. Mohata.—Then we have to go to court.

President.—Do they generally accept the award?

Mr. Mohata.—Generally they do.

President.—The Bengal Chamber of Commerce gives an award and on that award you get a refund?

Mr. Mohata.—Yes.

President.—It is possible for you to take action in a court of law.

Mr. Mukherjea.—There have been several cases in the court of law.

President.—What is the kind of remedy that you get from the court; is it damages or is it a sentence of imprisonment?

Mr. Mohata.—I don't think any case has been driven so far.

President.—An arbitration arranged by the Bengal Chamber of Commerce is much more suitable to business people?

Mr. Mohata.—Yes; it saves times as well as money.

President.—Has there been many cases of short lengths in Indian cotton goods shipped from Bombay to Calcutta: what is your experience?

Mr. Mohata.—There were a few cases last year and amicable settlement was made.

Mr. Rahimtoola.—The Bengal Chamber of Commerce has nothing to do with Indian goods, have they?

Mr. Mohata.—No.

Mr. Barjatya.—Since European importers have taken to this trade of selling Indian mill made goods, they have put this rule into force that we can go up to the Bengal Chamber of Commerce for arbitration.

President.—If a large dealer who is a member of the Bengal Chamber of Commerce is interested in Indian goods then he goes to the Bengal Chamber of Commerce for arbitration in the same way as he would for imported goods?

Mr. Mohata.—Yes.

President.—If you look at your replies to the questionnaire on the second point, you see "such was the case till 1929. Since then districts which were being served by Calcutta have begin to take their requirements direct from the manufacturing centres". Does that mean that in the old days if a manufacturer in Bombay wanted to send his goods to a centre like, say, Cawnpore or Delhi, he would send them first to Calcutta?

Mr. Barjatya.—Goods intended for places like Muzaffarpur, Bhagalpur and so on would come to Calcutta first.

President.—You mean goods intended for markets within accessible distance of Calcutta.

Mr. Barjatya.—Also in Bihar.

President.—Even in those markets when goods are shipped from Bombay they are shipped direct now?

Mr. Mohata.—Yes.

President.—So that to that extent Calcutta is losing its importance?

Mr. Mohata.—Yes. Bhagalpur, Muzaffarpur and places in Bihar generally bought all their requirements from Calcutta but now they generally import direct from Bombay and Ahmedabad. They do not get their requirements from Calcutta any longer.

President.—That means that a considerable portion of the business which used to come into the hands of dealers in Calcutta have now disappeared.

Mr. Mohata.—Yes.

President.—With regard to point 3, your Chamber does not agree with the suggestion that the existence of internal competition keeps prices down. I should like you to explain that point a little more fully. We have been told that certainly as regards Indian goods of counts lower than 30s the Indian mills are now producing enough for the country's requirements and therefore there is keen internal competition in respect of these medium and

coarser counts. So on account of keen internal competition prices of coarser counts of cloth have come down in bigger proportion than the general decline in prices.

Mr. Mohata.—That is not our experience.

Mr. Barjatya.—What do you mean by internal competition? Is it competition between say Ahmedabad and Cawnpore?

President.—Yes.

Mr. Barjatya.—An Indore mill or a Cawnpore mill or Delhi mill has its own market and therefore there is no competition.

President.—If you take a mill like the Delhi mill, the Delhi mill exists in order to cater for a particular market; therefore to the extent that other mills which are likely to cater for that market are too far away the Delhi mill has the run of that market.

Mr. Barjatya.—Yes, and therefore they have no competition.

President.—Take a market like Calcutta: you have grey dhotis shipped in large quantities from Bombay and from Ahmedabad; you have also the Bengal mills producing in increasing quantities. In a case of the kind where in the same market a large number of mills are operating at the same time, don't you think there is internal competition?

Mr. Baid.—Different mills manufacture different sorts of cloth; they don't manufacture the same kind.

Mr. Mohata.—Most of the Indian mills carry very huge stocks and for that reason they cannot avail of the change in the cotton prices to lower the prices of cloth even if there is internal competition.

President.—You mean their stocks are so heavy that they are unable to regulate prices according to the variation in the cotton prices?

Mr. Mohata.—Quite so. Even if there is internal competition they cannot lower prices so regularly or so suddenly as they should owing to the reason that they carry huge stocks.

President.—Is it generally true that they have huge stocks?

Mr. Mohata.—It is true and it is substantiated by the representative of the Millowners' Association. From 1923 I have got statistics given by them till May 1931-32 in which they say that the total amount of uncleared goods unsold and sold for delivery but not taken away is very heavy.

President.—Are you thinking of the average stocks right up to date or are you thinking of something else?

Mr. Barjatya.—Manufacturers always carry very huge stocks which prevent them from regulating prices.

President.—The result of having heavy stocks may also be the other way. What I mean is that if your stocks are heavy you would be tempted to unload them sometimes at a price which is not altogether economical?

Mr. Mohata.—To unload such heavy stocks means such heavy loss that it is difficult to bear..

President.—Suppose there is a steady decline in the price of raw cotton: You can hold your stock up to a point then when you find there is no improvement you unload your stock otherwise the loss would be tremendous.

Mr. Mohata.—They don't do it because in their business their agents have got a greater hand and they help the mill not to unload the goods but to hold them for future movements.

President.—Suppose as a result of granting protection the Indian industry was helped to develop itself by increasing its production and so on, then don't you think that will have the effect of driving prices to a level which would be rather lower than the c.i.f. price of imported goods *plus* duty? After all even if you held heavy stocks you must one day dispose of it?

Mr. Mohata.—To dispose of that they always clamour for protection.

President.—Supposing the Tariff Board as a result of foolish impulse gave them all the protection they ask for and the mills are able to increase their output to an extent which is far in excess of the requirements of the country, then however heavy the proportion of their stocks may be they must sell them. Your experience definitely is that even as regards goods of lower counts internal competition has not helped to bring down prices to an extent lower than the prices of comparable classes of imported goods?

Mr. Mohata.—Quite so.

President.—We cannot get absolutely exact comparison in these matters. Suppose you had a kind of Japanese cloth which is more or less comparable with Bombay cloth, assuming they are both below 20s—take a thing like drill which is generally made of 20s—supposing you had two classes of cloth of that kind in the market, it is not your experience that the Indian cloth would sell at a lower price than the corresponding import price?

Mr. Mohata.—No.

President.—You are speaking from your experience of having dealt in imported goods and Indian goods during the recent months?

Mr. Mohata.—If the quality is similar our experience is that the Indian mill product fetches a better value than the imported product.

President.—Your point comes to this that if there is internal competition tending to depress the price that is more than counteracted by the influence of the swadeshi movement. Even assuming there is internal competition tending to depress prices that is more than offset by the upward trend in Indian prices which is caused by the swadeshi movement.

Mr. Mohata.—We will explain it later.

President.—Supposing you take the same kind of cloth which is woven of coarser counts of yarn, say something below 30s or about 25s, the point which has been made by Indian mills is that as far as the coarser counts of cloth are concerned they produce now practically all the cloth of that kind required by the country and the result of that is that with 300 and odd mills in this country producing cloth of that kind there will be no imports at all and competition between Indian mills is such that the price of coarser cloth will come down to a level which is lower than the prices which would be fetched by imported cloth of the same kind. Supposing you had imported cloth of 24s and they fetched a price of Rs. 1-8-0 including duty, the Indian cloth the same kind would fetch say Rs. 1-6-0 because of internal competition. They say that will not happen in regard to Indian cloth of 40s and above because they are producing a relatively small proportion of the market, therefore in that case imported goods will determine prices.

Mr. Mohata.—In these lower counts Indian mills have been successful in selling at competitive prices and therefore finished dhotis from the United Kingdom have been out of the market.

President.—By competitive prices do you mean prices lower than the import prices?

Mr. Mohata.—Yes in certain cases. We have been without any business in finished dhotis with Lancashire since months.

President.—As a result of the swadeshi movement purchasers would ask you for Indian goods?

Mr. Mohata.—Why do you go to the swadeshi movement; why don't you go to these duties?

President.—Let us take the factors one by one. I am now on the question of preference that exists in the market apart from the question of duties. Since there is preference for Indian goods, is it not possible for Indian goods to make use of that preference?

Mr. Mohata.—What do you mean by preference?

President.—Suppose I go into the market: you have imported cloth and Indian cloth: I say I want Indian cloth, I don't want imported cloth?

Mr. Mohata.—The consumers of these lower counts of goods are not so much educated and they do not have any particular preference. In the case of high class Indian people there is some preference and therefore high olass goods fetch a better price than imported goods. But in the case of cheaper class of goods the price will be the main factor. The general consumer has not so much preference. When there is propaganda there is preference but without propaganda there is no preference.

President.—In the class of goods which are consumed by educated consumers they would show a certain amount of preference?

Mr. Mohata.—Yes, but in lower quality of goods it is simply a consideration of price.

President.—With regard to question 12 you are of the opinion that the present duty on imported cotton should be retained?

Mr. Mohata.—Yes.

President.—In reply to question 38 you suggest that manufacturers in Japan have increased their prices recently. Is it since the new duties were enforced?

Mr. Mohata.—From before that time.

President.—As compared with what prices have they increased theirs? Take for example June prices: are prices now of Japanese goods higher than they were in June?

Mr. Mohata.—Much higher.

President.—Have you got figures? What kinds of cloth are these?

Mr. Baid.—We have got shirtings and dhutis.

Mr. Mookherjea.—For example grey shirting.

President.—What is the price now?

Mr. Mookherjea.—In June the price was 4/70, 4/75.

President.—The price has gone up in yen. It was 4·75 yen in June. What is the present price?

Mr. Mookherjea.—The present price is 6/75 and went still higher about a fortnight ago. It was 7 yen.

President.—Would you be able to give us a statement of these yen prices?

Mr. Mookherjea.—Yes, I can give you corresponding rupee prices as well.

President.—While you are in favour of protection, you are against the present scale of duties. You consider the present rates of duties to be excessively high. Are you thinking of the new duties or the duties introduced in 1930?

Mr. Mohata.—We are thinking of 31¼ per cent. duty.

President.—You are thinking of the normal duty.

Mr. Mohata.—Yes.

President.—You are not thinking of the recently introduced duties?

Mr. Mohata.—That was imposed after we wrote that letter.

President.—If you are in favour of protection, I take it you are in favour of necessarily granting adequate protection; otherwise you are throwing away your protection. What I mean is supposing we found on examining the cost of a really efficient mill, and we found that a duty of somewhere about 35 per cent. was necessary in order to enable that mill to sell its goods at a profit of 5 per cent., supposing that was the conclusion we arrived at, then if we allowed a duty of only 20 per cent., that protection is not going to protect.

Mr. Mohata.—Of course not.

President.—In that case what would be your suggestion?

Mr. Mookherjea.—It would be very difficult to give an opinion in that matter. If you are satisfied that there is no room for further improvement in the management of the mill or otherwise to curtail their cost of production just to make a profit, then of course it comes to a different situation which we have to think over at that time.

President.—Your suggestion amounts to this. Supposing we found that on the present costs a duty of somewhere about 40 per cent. was required and we examined all possibilities of economies in the Indian mills, if they undertook this development and that development, their costs might be brought down in the course of 5 years to 7 years to a lower level, and if their costs came down to that level, then a duty of somewhere about 15 per cent. would be sufficient. If we got these two figures and we suggested an average of $\frac{40 \textit{ plus } 15}{2}$—I am using hypothetical figures?

Mr. Mookherjea.—The cost of production is not the only factor which has to be considered. It has to be considered whether they can put their goods in the market in a businesslike way. That is the purchasing of raw materials in the most advantageous time and placing the goods in an advantageous time in the market.

President.—It is not merely the actual cost of manufacture at the works.

Mr. Mookherjea.—No. It is a question of placing the goods in the most opportune time in the market and buying the raw materials in the most opportune time.

President.—Supposing we made a reasonable allowance for the economies possible not merely in the cost of the mill but also in the purchase of raw materials and in the arrangements with regard to sales and we found in that case a somewhat higher duty than you have suggested is necessary.

Mr. Mookherjea.—In that case we, as a Chamber, would not object to it.

President.—There is one other point on which I should very much like to have the opinion of the Chamber. You have said here that the administration of specific duties would involve many difficulties. That is in answer to question 40. We have been feeling for some time that an *ad valorem* rate of duty will not be very effective as a form of protection, because if there is a large drop in the c.i.f. price, then you see the amount of protection that the Indian industry gets is reduced when it is an *ad valorem* rate. Supposing you require a protection of 20 and the c.i.f. price is 100 and you fix it at 20 per cent., if the c.i.f. price goes down to 75, at 20 per cent., they will only get 15 whereas they require 20.

Mr. Mohata.—They purchase the goods at any rate and they cover the exchange. They are great losers.

President.—I quite realise in those cases importers do lose. As between specific duties and *ad valorem* duties as a form of protection, don't you think in order to make the protection really effective for the Indian industry, the duty should be on a specific basis? As far as you are concerned, whether it is a specific or *ad valorem* duty, it makes no difference.

Mr. Mookherjea.—A specific duty is more suitable. If it suits the Indian mills, it will suit us.

President.—Why do you say that its administration would involve difficulties? Have you considered the point as a Chamber? I will tell you what I am thinking of. When Mr. Hardy reported in 1929, he thought that if you had a specific duty based on weight like the duty that we have put on the plain grey, it would be difficult to administer it, because in order to determine the weight, we have got to open the bale and things of that kind. Actually Custom people have been applying this duty now not merely on plain, but also on colour woven goods.

Mr. Mookherjea.—That is the difficulty which we are thinking of.

President.—What I am thinking of is this: If the Customs people could have administered it for more than 2 years on two such important classes of plain grey and coloured woven, and if we extended the system to all classes of piece-goods, as far as the Custom House is concerned, there cannot be any administrative difficulty.

Mr. Mookherjea.—I suppose there should be some room for difficulties, because the qualities are so very different. When you get away from the grey goods, the qualities become so varied that I think the application of the specific duty would be difficult.

President.—Supposing you combined an *ad valorem* with a specific duty? Supposing you said 25 per cent. or 3 annas per lb. whichever is high, in that case the question of quality is to some extent safeguarded by the *ad valorem* rate. You more or less equalise the ratios. Mr. Hardy was thinking only of a specific duty unmixed—no *ad valorem* rate combined with the specific duty. Supposing we had a system of so much per cent. *ad valorem* or so many annas per lb. whichever is higher, in that case the system would work tolerably satisfactorily.

Mr. Mookherjea.—It is very difficult to get the result until it is definitely in force.

President.—At present you can't foresee any formidable objections. What you are thinking of is when the thing is actually put, difficulties may arise. As people who have great deal experience of the market for the time being can't think of any special difficulties?

Mr. Mookherjea.—No.

President.—You want the tariff definition of plain grey goods altered in such a way that all coloured woven goods should be left out of it and plain grey will be really grey. Has the market seriously been inconvenienced by this tariff definition?

Mr. Mookherjea.—In a way.

President.—In what way?

Mr. Mookherjea.—In the calculation of costs as well as selling the goods.

Mr. Rahimtoola.—Your Chamber consists of wholesale dealers and importers?

Mr. Mookherjea.—Yes.

Mr. Rahimtoola.—The percentage that you have given us is 6¼ per cent. It is charged on price *plus* duty.

Mr. Mookherjea.—Yes.

Mr. Rahimtoola.—This you told me does not include the wholesale dealer's commission.

Mr. Mohata.—Quite.

Mr. Rahimtoola.—If your Chamber has got members who are members dealing as wholesale merchants, you will be able to give us an approximate idea as to what their commission is over and above the commission of 6¼ per cent. which you say is generally charged by the importers covering various charges *plus* 3 to 3½ per cent. discount.

Mr. Mohata.—Generally they buy contracted goods of forward shipments and the prices they demand are the prices ruling in the market.

Mr. Rahimtoola.—Suppose I am a wholesale dealer and I buy at a certain price from the importer. It is not to my advantage to sell that stuff or buy it from you unless I derive a certain amount of profit.

Mr. Mohata.—5 pies.

Mr. Mookherjea.—He will try to get something at least. You will buy forward several months ahead. You do not know what will be the condition of the market at that time. You buy with the idea that you will make some profit. That idea of price we calculate on the present day market rate.

Mr. Rahimtoola.—I quite agree with you. When I am calculating my own price for forward delivery, I calculate it on the basis of a profit which when the transaction takes place, that profit owing to the market price falling may not be realised, but that doesn't mean when I am calculating a price and placing my order with an importer, I am not taking into consideration at that time my own profit. It is only afterwards when the question arises that I may lose, but that doesn't mean that the price at which I am ready to buy doesn't cover my commission.

Mr. Barjatya.—The idea of the dealers' margin is not so regular as the importers' commission. That is the difficulty in telling you a definite figure about the margin to the dealer.

Mr. Rahimtoola.—I want an approximate figure.

Mr. Mohata.—1 to $1\frac{1}{2}$ per cent.

Mr. Rahimtoola.—You just now told us that as regards the difference between Japan and Lancashire there was about 5 per cent. on duty paid price, is that correct?

Mr. Mookherjea.—It is difficult to tell you exactly. But our idea is that the difference should be about 5 per cent.

Mr. Rahimtoola.—You have taken into consideration the differential duties, because the duty paid price in the two cases would be different. It would be 100 *plus* 25.

Mr. Mohata.—We have not taken this 50 per cent.

Mr. Rahimtoola.—Even then it would be 25 and $31\frac{1}{4}$ per cent.

Mr. Mohata.—The market price recently had been like that.

Mr. Rahimtoola.—According to you it will be nearly 11 per cent., because there is already a duty of 6 per cent.

Mr. Mohata.—Yes.

Mr. Rahimtoola.—You gave us to understand that the swadeshi movement is confined only to the finer class of goods or to the educated class. I suppose you can easily say that it is confined to the finer class of goods, is that correct?

Mr. Mookherjea.—It is very difficult to make a classification of people as it is difficult to make a classification of goods.

Mr. Rahimtoola.—As far as I am able to understand that the better and educated class of people generally go in for fine goods.

Mr. Mookherjea.—That is not true.

Mr. Rahimtoola.—Would you put down as 50 and 50? There is a feeling we were told among the consumers that people are gradually going on to fine counts and they prefer finer counts as against coarser counts.

Mr. Mookherjea.—Particularly we have not studied that question from a political point of view.

Mr. Rahimtoola.—I am now talking of the business point of view. The tendency of these people who want to erect mills in this country are taking to fine counts and for manufacturing fine counts there is a special machinery as against the general machinery for coarse counts.

Mr. Mookherjea.—Fine counts have got good buyers if the prices are reasonable.

Mr. Rahimtoola.—I am talking now of the general feeling that is in vogue in this country.

Mr. Mookherjea.—I shall not be able to give any different classification. Educated people only prefer.

Mr. Rahimtoola.—Not the educated, but the consumer class as such prefer fine goods at this juncture than the coarser counts.

Mr. Mookherjea.—It is very difficult to work out any percentage.

Mr. Rahimtoola.—We can see it from the trend of events that is happening. Unless you are able to sell your goods, you won't manufacture goods

and having regard to the fact that most of the machinery that is now coming in is mostly for fine goods, there must be an increase in the demand from the consumers point of view.

Mr. Mookherjea.—It is a question of price. If the prices are attractive, finer counts will be preferred.

Mr. Rahimtoola.—Price question will come in only if you admit the first clause, namely that there is a tendency for finer class of goods. Then if that is so, owing to swadeshi movement people would go in for that irrespective of the price. As far as the educated people are concerned, I think that the swadeshi movement lends to this effect that they don't consider the price factor so important as the swadeshi factor.

Mr. Mookherjea.—Yes a certain class of people prefer finer class of goods.

Mr. Rahimtoola.—People who are more or less able to understand the political view of the question. You would not put down the swadeshi feeling in the general run of the feeling in India.

Mr. Mookherjea.—No.

Mr. Rahimtoola.—All communities are after all Indians.

Mr. Mookherjea.—But the feelings are different.

Mr. Rahimtoola.—As regards the duty you are thinking of the charges which the management has put down in the cost of production. You say that even the present duties are too high and they should be reduced, if you look at your last paragraph, page 1, you say in spite of cheap labour, extensive market at hand and so on the industrialists of the country have failed to improve their system of management. Are you thinking of the charges of the Managing Agency system or are you thinking of the marketing of products or to the purchase of raw materials?

Mr. Mookherjea.—We meant both.

Mr. Rahimtoola.—You mean the charges?

Mr. Mookherjea.—The charges of production and marketing the goods.

Mr. Rahimtoola.—Not the managing agency charges?

Mr. Mookherjea.—They are also included.

Mr. Rahimtoola.—There are various systems by which the managing agents take their commission—some on their purchases, some on their sales, some on the profit, and so on. I want to know whether your Chamber has any idea as to the class of commission which the managing agents are charging?

Mr. Mookherjea.—We have no opportunity of knowing these things.

Mr. Rahimtoola.—That is what I say. You are only talking of the marketing charges?

Mr. Mookherjea.—Yes.

Mr. Rahimtoola.—I do not understand why artificial silk goods do not come in competition.

Mr. Mookherjea.—There is practically no manufacture of artificial silk piece-goods by the Indian mills.

Mr. Rahimtoola.—Do they not compete with Indian made cotton piece-goods?

Mr. Mookherjea.—Directly they do not, but indirectly they do compete with such classes of goods as were produced by Indian mills in meagre quantities.

President.—They compete principally with cotton fancies.

Mr. Mookherjea.—Not all fancies, but only certain classes of fancies which the Indian mills do not manufacture or manufacture in very small quantities.

MGIPC—L—12STB—14-3-34—275.